Identifying Standards for MFIs in Bangladesh:
A Study on the Scope of CAMEL for Rating POs of PKSF

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Declaration

The material embodied in this thesis is an original one. It has neither been copied from any written documents nor has been submitted to any where in part or full for any other degree or diploma of any university.

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List of Abbreviations

Acronyms	Abbreviation
APA	Average Performing Asset
ASA	Association of Social Advancement.
ASA	Association for Social Advancement.
BARD	Bangladesh Academy for Rural Development
BASE	British Aid to Support Enterprise.
CA	Current Assets.
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity Management.
CAR	Capital Adequacy Rate
CGAP	Consultative Group to Assist the Poorest.
CRR	Cumulative Rate of Recovery.
DER	Debt Equity Ratio
DFID	Department for International Development
DFIs	Development Finance Institutions
DGM	Deputy General Manager
DR	Delinquency Rate.
FC	Financial Cost
FCBs	Foreign Commercial Banks.
GNP	Gross National Product
IDB	Inter American Development Bank.
IT	Information Technology.
KMFI	Kenya Micro Finance Institution
KTA	Capital (K) Total Asset
LLP	Loan Loss Provision
MFI	Micro Finance Institutions
MIS	Management Information System.
NCBs	Nationalized commercial Banks
NI	Net Income.
NOM	Net Operating Margin
OC	Operational Cost
ODA	Overseas Development Administration
ODR	On Demand Realisation.
OSS	Operational Self Sufficiency
OTR	On Time Realisation.
PCBs	Private Commercial Banks
PEARLS	Protection, Effective financial structure, Asset quality, Rates of returns and cost liquidity, Signs of growth.
PKSF	Palli Karma-Sahayak Foundation
PSIC	Private Sector Initiatives Corporation
PO	Partner Organisation
ROA	Return On Assets.
ROE	Return On Equity.
RR	Reserve Ratio
RWA	Risk-Weighted Asset.
SCALE	Self-Sufficiency ratio, Capital adequacy ratio, Asset Quality, Liquidity ratio and earning quality ratio
SEEP	Small Enterprise Education and Promotion
SR	Savings Ratio
TA	Total Asset.
USAID	Agency for International Development
WAN	Wide Area Network.
WCCU	World Council of Credit Unions

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I have tried my best to produce this dissertation as per standard required by the IBA, University of Dhaka. However, the undersigned researcher takes the sole responsibility of errors or omissions that remain in the paper.

Dated: 13th Sept, 2005

Md. Zamanur Rahman

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ABSTRACT

The CAMEL methodology is originally adopted by the North American Bank regulators to evaluate the financial and managerial soundness of U.S. commercial lending institutions. The CAMEL reviews and rates five areas of financial and managerial performance including Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity Management. As Micro Finance Institutions (MFI's) Increasingly currently aspire to have access to formal financial markets for capital, the need for having an assessment framework like CAMEL to evaluate the performance of MFI's is no less important. Against this backdrop, the objective of the study is to analyse the application of CAMEL for rating POs of PKSF. However, it must be mentioned that PKSF has its own assessment tools for internal evaluation of its Partner Organisations (POs).But the difficulty with their rating system remains in the fact that they depend more on the approach of 'learning by doing'. As a result, their assessment approach has not been developed as a universal tool for performance evaluation of all of the MFIs. In this context, the proposed CAMEL based assessment framework under this study aspires to introduce a total of 31 key indicators, with an individual weighting for each given indicator for performance analysis and rating. Among the performance indicators, 19 indicators account for quantitative evaluation, which weigh 64 percent of the total scores for rating. In the same manner, 12 qualitative indicators are considered for remaining 36 percent. Performance of each indicator will be determined in terms of the average score collected from the spread sheets which contain the relevant performance data of the randomly selected 30 PKSF's (see annex-II) POs. The score for each indicator will remain within the predetermined scale of 0-5. This scale ranging between 0-5 will be determined in terms of the stakeholders' suggested range for performance evaluation. For each indicator's individual value will be weighted with the assigned weight. This assigned weight is determined depending on the impact of performance indicators on the components of CAMEL. Then each of the components of CAMEL will get a weighted average mean which will eventually set the performance standard. However, we can get an overall composite rating using five components of CAMEL.

CAMEL information and adjustments

The financial statements, a PO requires to gather for the CAMEL rating under the study include: (1) financial statements; (2) budgets and cash flow projections; (3) portfolio aging schedules; (4) fund sources; (5) information about the board of directors; (6) information about staffing and operations; and (7) macroeconomic information. However, financial statements provide the basis of the CAMEL's quantitative analysis. In this connection, POs are required to present audited financial statements of the recent two years and most recent 12 month interim statements. The other required materials will offer information of the program and expose the evolution of the organisation under scrutiny. These documents all together demonstrate the level and structure of loan operations and the quality of the PO's infrastructure and staffing. However once the financial statements

have been compiled, adjustments need to be made. These adjustments serve two purposes: first, they place the PO's current financial performance in the context of a financial intermediary; second, they will give opportunity to the evaluators to compare the performance of the different institutions in the industry. During the evaluation six types of adjustments are made with regard to micro-finance activity, loan-loss provision, loan write-offs, explicit and implicit subsidies, effects of inflation, and accrued interest income

CAMEL SCORING

Based on the results of the adjusted financial statements and interviews with the PO's management and staff, a rating of 0-5 is assigned to each of the CAMEL's 31 indicators accordingly. A definition of each area and the criteria ranges for determining the ratings are as follows

- **Capital Adequacy**. The objective of the capital adequacy analysis is to measure the financial solvency of a PO by determining whether the risks it has incurred are adequately offset with capital and reserves to absorb potential losses. One indicator is ***leverage***, which illustrates the ***debt-equity*** & ***savings ratio*** of the PO. Another indicator, ***ability to raise equity***, is a quantitative assessment of a PO's ability to respond to a need to replenish or increase equity at any given time which is determined by ***capital to total asset ratio***. A third indicator, ***adequacy of reserves***, is another quantitative measure of the PO's loan loss reserve and the degree to which the institution can absorb potential loan losses. The only qualitative indicator for assessing capital adequacy of a PO is the ***reserve policy*** which influences the component a lot.

- **Asset Quality**. The analysis of asset quality is divided into four quantitative and three other qualitative indicators. ***ODR, OTR, LLP & DR*** which measures the quality of the PO's portfolio is the quantitative indicators where ***portfolio classification system***, ***productivity of the long term asset*** & ***infrastructure*** includes the three other qualitative indicators. ***Portfolio classification system*** entails reviewing the portfolio's aging schedules and assessing the institutions policies associated with assessing portfolio risk. The indicator ***productivity of long-term assets***, evaluates the PO's policies for investing in fixed assets.

- **Management**. The quantitative indicator- ***cost structure analysis*** indicates the different operational and financial cost derived from the performing asset which has the direct relation with the performance of management. It represents the total cost of certain percent of average performing assets which includes all levels of cost coverage i.e. the operational cost, financial and loan loss provision cost. This analysis shows that the organisation is covering all the actual cost from the income of micro credit project which also indicates the rate of change in capital, either increase or decrease. Five qualitative performance indicators are necessary to analyse the management capacity of the organisation under study. These include governance,

human resources; processes, controls, and audit; information technology system; and strategic planning and budgeting. ***Governance*** focuses on how well the institutions board of directors function, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. The second indicator, in assessing ***human resource***s, one has to examine whether the department of human resources provides clear guidance and support to staff engaged in operation to deal with recruitment and training of new personnel, incentives, and performance evaluation system. The third indicator, ***processes, controls, and audit***, focuses on the degree to which the PO has formalized key processes and the effectiveness with which it controls risk throughout the Organisation, as measured by its control environment and the quality of its internal and external audit. The fourth indicator, ***information technology syste***m, assesses whether computerized information systems are operating effectively and efficiently, and are timely and accurately generating reports for the management. It also reviews the information technology environment and the extent and quality of the specific information technology controls. The fifth indicator, ***strategic planning and budgetin***g, looks at whether the institution undertakes a comprehensive and participatory process for generating short-term and long-term financial projections and whether the plan is updated as needed and used in the decision making process.

- **Earnings**. The proposed CAMEL rating method for the PKSF's PO's considers four quantitative and one qualitative indicator to measure the profitability of POs' adjusted return on equity, operational efficiency, adjusted return on assets, and interest rate policy. The profitability analysis shows the analysis of ***NOM*** derived from the performing asset. ***Adjusted return on equity (ROE)*** measures the ability of the institution to maintain and increase its net worth through earnings from operations. ***Operational efficiency*** measures the efficiency of the institution and monitors its progress toward achieving a cost structure that is closer to the level leading the institutions operationally sustainable. ***Adjusted return on assets (ROA)*** measures how well the PO's assets are utilised, or the institutions ability to generate earnings with a given asset base. CAMEL evaluator also requires to study the PO's ***interest rate policy*** to assess the degree to which management analyses and adjusts the institutions interest rates on micro-credit loans (and deposits if applicable), based on the cost of funds, profitability targets, and macroeconomic environment.

- **Liquidity Management**. This is the fifth area of the proposed CAMEL rating to evaluate the PO's ability to accommodate decreases in funding sources and increases in assets and to pay expenses at a reasonable cost. Indicators in this area include ***current asset to current liabilities***, ***capital total asset ratio (without fixed asset)***, ***liability structure***, ***availability of funds to meet credit demand***, ***cash flow projections***, & ***productivity of other current assets***. Current asset to current liability is the acid test of an organisation, which evaluates the organisation's instant capacity to pay the current liability. Under ***liability structure***, the study reviews the composition of the institutions liabilities, including their tenor, interest rate, payment

terms, and sensitivity to changes in the macroeconomic environment. The types of guarantees required on credit facilities, sources of credit available to the PO, and the extent of resource diversification are analysed as well. It also focuses on the PO's relationship with banks in terms of leverage achieved on the basis of guarantees, the level of credibility the institution has with regard to the banking sector, and the ease with which the institution can obtain funds when required. ***Availability of funds to meet credit demands*** is necessary to measure the degree to which the institution has delivered credit in a timely and agile manner. ***Cash flow projections*** demonstrate the degree to which the institution is successful in projecting its cash flow requirements. Under this analysis, the evaluators looks at current and past cash flow projections prepared by the PO to determine whether they have been prepared with sufficient detail and analytical rigour and whether past projections have accurately predicted its cash inflows and outflows. ***Productivity of other current assets*** focuses on the management of current assets other than the loan portfolio, primarily cash and short-term investments. The PO is rated to the extent to which it maximises the use of its cash, bank accounts, and short-term investments by investing in a timely fashion and at the highest returns, commensurate with its liquidity needs. Under CAMEL rating analysis, there are two stages of rating from the derivatives of the components of the indicators. In the first stage, all the quantitative (level-I) indicators of five components of CAMEL are to be calculated from the approved formulas and then on the basis of average of the ratings found. In the second stage, all the qualitative (level-II) indicators of the same five components of CAMEL are calculated from the stake holders suggested range and then on the basis of average of the ratings. Finally, the mean of average of the level-I & level-II indicators of the five areas of CAMEL components are derived to get the proposed CAMEL standard which may be set in the scale of 0-5 to obtain a GPA by using the assigned weight for all components of CAMEL.

CHAPTER ONE

1.1.0 Background

In the early 1990s, Palli Karma Sahayak Foundation (PKSF)[1] and its affiliated network of institutions in Bangladesh recognised an increasing need to access capital from formal financial markets to achieve massive client outreach. In realizing this necessity, a micro credit fund was established in 1990, which is actually a guarantee fund for PKSF POs (Partner Organisation) to access credit. As the POs began to use the PKSF fund and deal directly with beneficiaries, it became clear that they required to have recognized financial performance measurements, which could show financial health of their institutions. Moreover, the management of the PKSF POs realised that this financial performance information is a prime requirement for the successful management of their institutions. It was also felt that there must have a quality-ensuring mechanism for its network with the focus on its technical assistance for the former. In evaluating such a need for financial performance information, PKSF held a series of financial management workshops to train micro finance managers. As a result, PKSF came up with a mechanism for assessing performance of the Micro Finance Institutions (MFIs), specially designed as a response to the specific challenges the micro finance industry confronted. Additionally, the PKSF[2] had its efforts to develop a rating system for its own use. PKSF rating system for POs covers accurate, consistent, and verifiable financial performance data, involving micro finance managers, depositors, lenders, and investors and so on.

However, the efforts of PKSF have not so far been successful in bringing any universality/conformity in its rating system. This is because PKSF in measuring the performance of its POs rely more on the approach of 'learning by doing', which lacks a tool for universally acceptable assessment of appropriate financial ratios. Against this backdrop, this study is designed to develop a financial assessment mechanism for Micro Finance Institutions

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1 PKSF is a nonprofit institution based in Dhaka, Bangladesh founded in 1990, and dedicated exclusively to Micro finance. Its network of affiliates includes both GO-NGOs and totaling 189 respectively as of December 31, 2003. The total number of clients and cumulative loan disbursement by PKSF to the PKSF affiliates stood at 41, 72, 595 (89% female and 11% male) and at tk. 14240.595 million. Respectively, as of December 31, 2003.

2 PKSF commissioned Mr. Fazlul Kader, DGM (ops) with many years of experience in the Micro finance field, to design the financial evaluation instrument.

(MFIs) emulating the conceptual framework of CAMEL which was introduced by the North American bank regulators to measure the financial and managerial soundness of U.S. commercial lending institutions by depending on some key ratios, indicators and institutional policies and procedures. CAMEL is actually an acronym for measuring- Capital Adequacy, Asset Quality, Management, Earnings and Liquidity Management of a financial institution. The proposed financial assessment mechanism for PKSF's PO under this study will review the same five areas of financial and managerial performance that the CAMEL originally deals with.

However, usually financial performance evaluation for a bank is being done by CAMEL rating that includes the capital adequacy ratio, portfolio quality ratios, management efficiency, earning quality ratios and liquidity ratio. In case of micro credit institutions, some of the proponents suggest for a somewhat similar set of measures to assess the performance, which is known as SCALE (includes self-sufficiency ratio, capital adequacy ratio, asset or loan portfolio quality, liquidity ratio and earning quality ratio). In addition, to evaluate the development objectives, they suggest using OSI (outreach, service quality and impacts). A mix of contextual indicators from the above rating measures as a 'package' based on the important features can be suggested for assessing financial performance situation of the POs (irrespective of size and outreach).

Also, to meet the requirements of PKSF, the POs need self-regulation mechanism for their smooth functioning and sound growth. It is admitted that the effective self-regulation is one of the key elements in efficiently managing and ensuring viability of an institution. Along with this self regulation, there has been a strongly felt need for overseeing the financial and program performance through an appropriate monitoring mechanism based on certain standards compatible with the PO activities unlike the conventional financial performance standards being used for formal banks and financial institutions. As most POs undertake both financial and non-financial services, the ratio analysis should also be different from formal banking institution. However, the non-financial services i.e. the social development activities of the POs bring no direct financial return to the institution; the assessment of such activities could be made through impact studies.

1.2.0 PKSF's rating System & the Proposed CAMEL rating.

Palli Karma Sahayak Foundation (PKSF), the apex-funding agency of micro credit in the country was set up by the Government of Bangiadesh as a "Company-not-for-profit" in 1990. It was registered under the Company's Act 1913. In the meanwhile it has been modelled as a trendsetter and quality bearer in micro-credit carrying out the leadership role in this arena. PKSF has already proved itself to be a good model of apex funding agency for micro credit. It has already attracted attention from various quarters at home and abroad.

When PKSF was established in 1990 there was no apex micro credit funding organization either in Bangladesh or in any other country of the world whose experiences PKSF could share or whose example it could follow to formulate and implement its policies and programs. Without any experiences to share and precedence to follow, PKSF in its last 15 years of experience has been able to achieve remarkable progress in the field of micro credit. PKSF's approach for developing a rating system (See Annex – 1.A) has been to "learning by doing" formulating policies, programs and implementation strategies out of actual experiences. PKSF now has clearly defined micro credit management and operations policies and standards; streamlines programs for institutional development for its own and its PO's capacity enhancement. PKSF reviews its policies and programs continuously and adjust them to meet the changing requirements. The two major concerns of PKSF are credit and institutional development program.

To keep smooth funding to the POs consistent and under tight supervision, PKSF traditionally focuses on skilled management, correct guidelines and policies and a righteous implementation and operations of the program in all levels. But it is not always possible to rely on quantitative aspects of evaluation. This is because qualitative aspects of evaluation is also necessary to see whether the management of the organisation and its functioning is quite satisfactory. To overcome this difficulty, PKSF, since half a decade, has been trying to set up standards that have a weighted scoring system. But the rating system of PKSF is not quite similar to that of CAMEL. So there is a strong need to set a universal standard for MFIs performance evaluation for rating the POs of PKSF. This question entails, first and foremost, identifying the indicators/standards to evaluate MFIs, which virtually comes up as the main thrust of this study.

1.2.1 What CAMEL does not measure?

The proposed CAMEL rating for PKSF's POs is supposed to play a critical role in the development and management of healthy and sustainable Micro Finance Institutions (MFIs). It is neither, however, an all-purpose tool nor a substitute of PKSF's existing rating system. Therefore, for obvious reason, questions come up- what does the proposed CAMEL instrument actually measure? And also, what does it not measure? According to Rhyne and Otero (1994), the two pillars of success for micro finance are scale and sustainability. Scale refers to the degree to which a PO reaches its target market, in other words, the extent of client coverage. Sustainability refers to the extent to which, in reaching its target market, an institution covers the costs of providing financial services after adjustments to its profit and loss statement.

The proposed CAMEL assessment measures the level of sustainability of a PO. However, it does not rate the institution in terms of client coverage per se rather; for example, it measures the financial implications of client coverage for the institution in terms of efficiency and profitability. Also, the CAMEL doesn't rate the institution in terms of social or economic impact at the client level.[3]

In reviewing the list of factors excluded from the CAMEL rating, it is important to keep in mind the key objective for using the CAMEL rating method and that is to help MFIs in accessing formal financial markets. Thus, only those aspects, which are pivotal for getting access to formal financial the market are to be considered for the CAMEL rating. Moreover, the market has a clear hierarchy of performance, reflected in the CAMEL rating system, which is indifferent to the stage of development of the Micro Finance Institution (MFI) or the limitations of the financial markets.

Target market. Although the original CAMEL is adopted for use in examining Micro Finance Institution (MFI)s, the differences between the target market of commercial lending institutions and that of POs. CAMEL does not account for the following variances.

Size of target market (scale). As noted above, the CAMEL only measures those variables that are key to accessing financial markets. In this context, the client coverage achieved by the institution, while of extreme importance to institutions like PKSF and many others, is relevant for the CAMEL rating only

[3] In other words, a PO may receive a very high CAMEL rating given its overall financial performance, despite the fact that its client coverage might be small and projected to grow only minimally.

in terms of its financial impact. For example, if a PO projects to maintain market share while only minimally increasing the number of clients, it would not be considered for the CAMEL rating system. From a social impact perspective, the sluggishness in client coverage is not desirable.

Appropriate outreach in terms of loan size. Average loan size is a recognized measure of a PO's effectiveness in reaching the micro-enterprise sector (as distinct from the small business sector). While a range exists within this average loan size measurement, the proposed CAMEL under this does not account for where a PO may fall within the range nor does it penalise an institution whose average loan size is above this range.

Geographic location of clients and density of micro finance market. Although micro-entrepreneurs operate in both urban and rural settings, the majority of PKSF affiliates exclusively service urban micro-entrepreneurs. The standard ranges used by the proposed CAMEL to rate a PO's efficiency are based on rural micro-lending where clients are not usually *densely* clustered in marketplaces or neighbourhoods rather they are scattered in the rural area. The CAMEL does not make any adjustments for population density in a given market.

Lending methodology. The CAMEL examination is neutral to the type of lending methodology used by the Micro Finance Institution (MFI). The same yardstick is applied regardless of whether the institution lends to individuals, solidarity groups, or whether it applies the Grameen Bank methodology.

Evolution. Three levels of evolution are relevant to the development of Micro finance. The first one is the Micro Finance Institution's (MFIs) internal evolution; second is the evolution of the local micro finance market; and third is the evolution of the national economy and the local financial sector.

Micro Finance Institution (MFI). The field of micro-credit development has generated a range of institutions. Some have been in operation for 20 years and others have just opened in past few years. The impact of the difference in duration of operation may be the volume of clients the institution has so far been able to reach. An institution that is in its start-up phase is likely to have a lower level of operating efficiency, and will be given a lower rating in the earnings area, than one that has had the time to reach economies of scale. Likewise, in the management area, where the CAMEL assesses the level of formality of a PO's policies and procedures, a start-up may receive a lower rating than an established PO. The CAMEL rating makes no exceptions for the start-up phase.

Micro finance market. The extent to which competition exists in servicing the micro-credit sector varies widely across national boundaries. The lack of direct competition, for example, allows an institution more liberty in setting its interest rates, potentially resulting in the tendency of making high profit. It may also result in a high rating in the capital adequacy area, as the PO is able to accumulate retained earnings. The CAMEL makes no adjustments for the existence or absence of competition.

Macroeconomy and development of local financial sector. The CAMEL does not adjust for variances in the macro-economy in which a PO operates. In areas where a recession may be undermining repayment rates or the ability of an institution to increase its volume of clients, the CAMEL is unconcerned. Additionally, adjustments are not made for country-specific legal and regulatory characteristics. Among the most relevant characteristics are interest-rate-ceilings. In a country where none exist, a PO can hide inefficiency by fixing excessive interest rate for making the organisation highly profitable. Alternatively, POs that operate where interest rate ceilings do exist may not be able to adequately cover the higher costs of servicing the micro-enterprise sector.

Type of Micro Finance Institution (MFI). Most relevant in this case is whether or not a PO is regulated. Certain costs are associated with regulation such as increased security, a more complex management information system (MIS), and staff training. These costs will affect an institution operating efficiency and profitability. The proposed CAMEL rating system analyses nongovernmental Organisations (NGOs) and regulated financial institutions in the same standards. As financial information is obtained from micro-credit programs around the world, peer groups that include institutions operating in densely populated areas than most of the PKSF POs will emerge, allowing examiners to use a different set of ranges for rating institutions on various key indicators.

1.2.2 What CAMEL does measure?

The CAMEL does examine the five areas traditionally considered to be fundamental in the operation of a financial intermediary.

Capital adequacy. The capital position of the institution and its capacity to support both the growth of the loan portfolio and a potential deterioration in assets are assessed. The CAMEL analysis looks at the institutions ability to raise additional equity in the case of losses, and its ability and policies to establish reserves against the risks inherent in its operations.

Asset quality. The overall quality of the loan portfolio and other assets including infrastructure (for example, office location and environment) is examined. This requires analysing the level of portfolio at risk and write-offs as well as the existence and application of credit policies and procedures and the appropriateness of the portfolio classification system, collection procedures, and write-off policies.

Management. Governance, the general management of the institution, human resource policy, management information systems (MIS), internal control and auditing and strategic planning and budgeting are examined as distinct areas that reflect the overall quality of management.

Earnings. The key components of revenues and expenses are analysed, including the level of operational efficiency and the institutions interest rate policy, as are the overall results as measured by return on equity (ROE) and return on assets (ROA).

Liquidity management. This component of the analysis looks at the institutions ability to project funding needs in general and credit demand in particular. The liability structure of the institution and the productivity of its current assets are also important aspects of the overall assessment of an institution liquidity management.

1.2.3 How the proposed CAMEL differs from the original CAMEL.

Since I978, the U.S. Federal Reserve Banks, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Credit Union Administration, and the Federal Deposit Insurance Corporation have used the original CAMEL to rate the *financial safety and solvency* of the institutions under their supervision. The examination and rating of these institutions are based on financial information and interviews with management. No comparable matrix (specific indicators carrying specific weights, as outlined in Table 1) to the proposed CAMEL exists for the original CAMEL. While the concepts under examination are clearly stated in the Examiner's Manual of the original CAMEL for each of the five areas (capital adequacy, asset quality, management, earnings, and liquidity management), there is no matrix that outlines (1) the formulas or specific qualitative criteria to be used for each of the five areas under examination, (2) ranges for each of the ratios or qualitative criteria chosen, and (3) the respective weights in the composite ratio of the quantitative or qualitative criteria under examination. Uniformity in the application of this matrix is required and may be verified by established

review committees and through use of peer group comparisons. Initiatives may be taken to establish peer groups in the Micro finance field as there is still limitation in the extent of readily available and comparable information among POs. The lack of sufficient peer group data coupled with the need to ensure objectivity in the application of the proposed CAMEL significantly reduces the flexibility of the examiner of the proposed CAMEL as compared to the examiner of the original CAMEL.

The introduction of a matrix specifying ranges and criteria for each variable of the proposed CAMEL aims to help the examiner overcome these problems. Another factor that led to the creation of a matrix is the need to clarify the expectations of POs participating in the evaluation process about how they would be rated. Although the proposed CAMEL and the original CAMEL both seek to rate the financial solvency, safety, and soundness of an institution by analysing the same five areas, the specific ranges for certain financial indicators are not the same. In areas like operational efficiency (administrative costs in relation to loan portfolio) and leverage, for example, the ranges are significantly different between the two CAMELs because they respond to two different types of businesses involving traditional banking and Micro-finance.

The main determinant of the ranges of indicators will be derived from the performance of the POs of the PKSF. The ranges for each of the indicators included in the proposed CAMEL are developed by taking into consideration the performance of formal financial institutions, theoretical conclusions about a given indicator, and the performance of the PKSF's POs and of Micro Finance Institutions (MFIs) outside the network for which data are available. For example, in setting the range for return on equity the study looked at the comparable rate in the financial system because, unless this rate is achieved, one cannot expect to attract investors.

However, the leverage ranges come about as a result of a theoretical analysis of what the level of indebtedness should be for this type of institution, as compared to the formal financial system, given the unique characteristics of micro lending. Once these two ranges are defined, the return on assets calculation becomes a given and is tested by comparing it to the return on assets range achieved by PKSF and non-PKSF affiliates. In contrast, in the original CAMEL, the ratios that the examiner chooses to evaluate are compared to financial ratios of that institutions peer group that are updated on a regular basis. The peer group is determinedon the basis of the institution's asset size, the number of domestic branches, and whether it operates in a metropolitan area. In the original CAMEL, the rating is a function of three

factors: (1) the institutions standing relative to its peer group, (2) the trends observed for the institution in question, (3) and "best practices" for the industry. The study applying the original CAMEL uses its discretion in weighing these three aspects for any given rating. If, for example, the entire peer group is suffering from poor asset quality because of a recession environment, those who have fared best, and are therefore within the highest percentile for their peer group, would still not be given a high asset quality ranking. In this example, the peer group data serves to inform the examiner of the impact of the recession vis-a-vis asset quality. Original CAMEL expertise give a composite CAMEL rating between one and five, with one being the highest rating and five the lowest. However, no specified weighting is given to each of the five areas under examination to arrive at the composite rating. The proposed CAMEL is in the reverse manner, with five being the highest rating. The interpretations of the five rating categories given by original CAMEL expertise coincide with that of the proposed CAMEL; for example, the original CAMEL Manual describes the highest rating as indicating an institution that is sound in every respect and that is resistant to external economic and financial disturbances. In this regard, it is interesting to note that, although the proposed CAMEL is almost equally divided between quantitative and qualitative components, approximately 70 percent of the indicators that make up the composite rating for the original CAMEL are quantitative.

The proposed CAMEL's relatively more emphasis on qualitative indicators stems from the purpose of using the instruments properly. The proposed CAMEL is designed to serve as a complete guide to Micro-finance Institutions (MFIs) seeking to become formal financial intermediaries. Thus, many of the qualitative components of the CAMEL rating outline the types of practices (audit practices, portfolio classification, strategic planning) that need to be in place if the institution is to become a successful financial intermediary.

1.3.0 Objective of the study

The overall objective of this study is to identify the range of standards using CAMEL for rating informal financial organizations so that an apex organisation like PKSF can be able to make decision whether to or not to finance a particular PO.

Broader Objectives

The objective of the research is developing standards for micro credit management so that PKSF and other funding agency can use it as an internal assessment tool that allows its affiliate institutions to reach the highest standards of performance.

Specific Objective:

The specific objectives of the research is to

a) To study the existing rating practice of PKSF.

b) To identify the factors that must the considered and analysed in rating POs of PKSF.

c) To develop a model by weighting variables for rating POs of PKSF.

d) To setting standard for governance, management, financial conditions and so on of the informal sector, particularly that of microcredit so that they can easily be evaluated by certain norms,

e) To increase accessibility of the MFIs to funds so that they do not fall into shortage of funds to disburse to the targeted poor borrowers,

f) To make the informal sector eligible for getting funds from formal financial sector i.e. commercial banks,

g) To make the informal sector financially viable by using funds from competitive formal sectors,

h) To ensure institutional viability of the MFIs that includes self-sustainability, crisis coping capacity, etc

i) To improve the monitoring and evaluation activities of the informal sector that includes financial and operational performance, periodic study on impact, etc.

j) To improve its financial management and internal control that includes MIS, accounting system, internal audit, internal supervision budgetary practice etc.

k) To develop the Human Research Development Policy (HRDP) that includes recruitment process, appraisal of personnel and status of HRDP, etc.

l) To ensure program viability that includes seeing group members as percentage of total target population, group effectiveness, loan disbursement and recovery rate, skill of field workers, accounting system of the POs, leadership quality, etc.

m) To create and maintain expected institutional culture that includes sound governance, incentive base for management staff and employees, etc.

n) To develop the status of financial and physical assets that includes equity building, ownership building, land, furniture, vehicles, etc.

1.4.0 Scope of the study

This study will cover most components that encompass CAMEL i.e. capital adequacy, asset quality, management, earning and liquidity management. At the same time this study will not go beyond the line of CAMELto analyse the size of target market (scale), appropriate outreach in terms of loan size, geographic location of clients and density of micro finance market or lending methodology. As for example, some academician as well as researcher of the micro finance industry have suggested that an **"S"** be added to the CAMEL diagnostic to measure 'social impact', what PKSF has not entertained so far. In the same line of action and thoughts this study will also adhere to the same thought.

As noted above, this study will consider those variables that are key to accessing financial markets. In this context, the client coverage achieved by the institution, which are of extreme importance to institutions like PKSF and other apex organizations, is relevant for the CAMEL rating only in terms of its financial impact, that is, market share or economies of scale achieved. For example, if an MFI projects to maintain market share while only minimally increasing the number of clients, it would not be considered under the CAMEL rating system. From a social impact perspective, however, the sluggishness in client coverage would not be desirable. In other words, an MFI may receive a very high CAMEL rating given its overall financial performance, despite the fact that its client coverage might be small and projected to grow only minimally.

Again, average loan size is a recognized measure of an MFI's effectiveness in reaching the micro enterprise sector (as distinct from the small business sector). While a range exists within this average loan size measurement, this study will not account for where an MFI may fall within the range, and even it will not penalise an institution whose average loan size is above this range.

Although micro entrepreneurs operate in both urban and rural settings, the majority of PKSF affiliates exclusively service urban micro entrepreneurs. The standard ranges used by the CAMEL to rate an MFI's efficiency are based on urban micro lending where clients are usually *densely* clustered in marketplaces or neighbourhoods. The CAMEL does not make any adjustments for population density in a given market.

The CAMEL examination is neutral to the type of lending methodology used by the Micro Finance Institution (MFI). The same yardstick is applied regardless of whether the institution lends to individuals, solidarity groups,

both individual and solidarity groups, and whether it applies the village banking methodology.

As the weighted scoring system is a mammoth job, to limit the scope, predominant indicators would be examined in only PKSF financing of the PO/MFIs.

As most MFIs undertake both financial and non-financial services, the ratio analysis should also be different from formal banking institution. However, the non-financial services i.e. the social development activities of the MFIs bring no direct financial return to the institution; the assessment of such activities will by no way be done by this study.

1.4.1 Challenges to developing, applying, and disseminating the proposed CAMEL.

A significant challenge to the survey of the CAMEL to micro-finance is how to disseminate the result to the stakeholders. In other words, the challenge is how to encourage demand for the CAMEL results and, thus, motivate disclosure of the result. The confidential nature of the CAMEL rating applied by the study mirrors the practice of the original CAMEL. Neither Bangladesh regulatory agencies nor the subject institutions are permitted to disseminate the results. It is the public rating agencies, such as Bangladesh bank, that offers the mechanism for sharing requisite financial performance information with lenders and investors. These rating agencies exist because of the demand for information by the capital markets. Although they are given less access than regulators, rating agencies are able to successfully fulfil the demand for information because of a clear incentive for disclosure on the part of the subject institution; a public rating implies transparency and thus financial legitimacy to a well-established market of potential investors. In the case of micro finance, no such well-established market exists.

Yet without publicly available and verifiable financial performance information, the evolution of this market will be significantly inhibited. As long as the results are kept confidential, the value of the CAMEL rating to micro-finance will remain limited.

However, the single most important factor in achieving widespread dissemination of CAMEL results is the demand by the institutions which are eager to offer fund for micro-finance, including donor agencies, lenders, and investors, for verifiable performance information. This is due to the fact that the demand by the capital markets for in-depth analysis of POs is still very

limited. In this regard it may be suggested that donor agencies and apex funding agency could create a demand for the CAMEL rating for funding purposes. The second challenge is to determine what entity will complete CAMEL examinations in the long-term. Can, and should, it be the apex institutions, which provide technical assistance to POs, such as PKSF, FINCA, Cal meadow, and Women's World Banking? Or will an independent body evolve to become a specialised rating agency, which can ensure that the results will meet the demands of these technical assistance providers in addition to those of the sources of funding? However, if this specialised agency is to be successful in obtaining the credibility of financial markets, it must be set up to guarantee objectivity of application and the highest professional standards in terms of the depth of analysis and degree of experience of those involved in generating the rating.

1.5.0 Problem statement

The identifying of indicators as standards for the micro finance industry is critical. PKSF has set standards to rate her partner organizations. Similarly, CAMEL originated in North America is popularly used in the formal financial sectors. However, no standards have so far been developed to evaluate informal financial sectors, including the sector of micro-credit in general. This study undertakes the project to identify standards for the informal financial sectors, where MFIs are predominant concerns, can be replenished by CAMEL standards considering the typical properties of the informal sectors.

PKSF has a rating system developed for evaluation of its Partner Organizations (POs). In that rating system, MFIs must be able to provide accurate, consistent, and verifiable financial performance data, both to micro-finance managers focused on achieving maximum results and to depositors, lenders, and investors and so on. But this rating system cannot be said standards even for the POs. If we talk about standards, it must also cover asset quality, profitability, and other key indicators, and in some areas, such as provisioning and leverage limits. The rating system developed by PKSF is different from those of the original CAMEL as this one acknowledges the differences inherent to micro finance. Thus, we can say the rating system as quasi-standards for its POs. PKSF, in its building of the rating system, has been more penetrating as far as indicators are concerned. For example, MFIs have a significantly higher level of operating costs in relation to outstanding loan portfolio, as for example, because of the smaller loan sizes. PKSF rating system has provision for all these.

Before the inception of PKSF, to run micro-credit there were no such coherent set of policy guidelines or standards for its management and operations. PKSF through the last decade has prepared a number of policy guidelines and standards for the sector spurring upon the considerations out of felt needs. Cross section of Professionals, practitioners including PKSF staff members, PO officials, and academicians thought over the issues and shared their views. Then they could come to conjecture about rating indicators. Setting standards is still an on-going issue.

PKSF has a program to develop standards in further areas and review and revise ones those have already been prepared. To qualify for getting fund from PKSF, the MFIs require having a self-regulation mechanism for their smooth functioning and sound growth. It is recognised that the effective self-regulation is a key element of a well-managed and viable institution that can hardly be substituted by any external measures.

Side by side with the self-regulation mechanism for MFIs, there has been a strongly felt need for overseeing the financial and program performance through an appropriate monitoring mechanism based on certain standards compatible with the MFI activities unlike the conventional financial performance standards being used for formal banks and financial institutions. As most MFIs undertake both financial and non-financial services, the ratio analysis should also be different from formal banking institution.

However, the non-financial services i.e. the social development activities of the MFIs bring no direct financial return to the institution; the assessment of such activities could be made through impact studies. Usually financial performance evaluation for a bank is being done by CAMEL rating that includes the capital adequacy ratio, portfolio quality ratios, management efficiency, earning quality ratios and liquidity ratio. In case of micro credit institutions, some of the proponents suggest for a somewhat similar set of measures to assess the performance, which is known as SCALE (includes self-sufficiency ratio, capital adequacy ratio, asset or loan portfolio quality, liquidity ratio and earning quality ratio). In addition, to evaluate the development objectives, they suggest using OSI (outreach, service quality and impacts). A mix of contextual indicators from the above rating measures as a 'package' based on the important features can be suggested for assessing financial performance situation of the MFIs (irrespective of size and outreach).

The program monitoring of the MFIs is recommended to be periodically undertaken (off-site) by the monitoring agency through regular periodical

statistical reporting from the MFIs. The periodical information should include the extent of coverage in terms of membership and geographical area, loan disbursement (by term), loan recovery, loan outstanding, amount of gross and net savings (obligatory and voluntary), amount of arrears due with actual recovery against the due, loan recovery rate, etc.

Now the first part of the problem endangers from the lack of standards for the evaluation of non-formal financial sector that also include the micro finance sector. But it is not an issue of frustration. In the in-formal financial sector identifying the criteria or indicators of this sector can develop standards. Thus, identifying indicators for setting standards for the MFIs becomes the second problem under the study. The third part of the problem is to identify standard value for each of the indicators of CAMEL, which will be particularly used as standard for micro-credit industry. PKSF has developed the rating system which is internally purposive. Now setting standards for the MFIs are underway by PKSF.

Setting standards for informal financial sectors can be done by CAMEL already in force in the formal financial sector. The problem here to be considered is the difference of the informal financial sector from the formal sector. Obviously it is not an easy task to trace identical difference amongst the various concerns of the informal financial sector, as for example, between the Micro finance sector and the cooperative society, etc. A greater segment of the informal financial sector is credit and credit-plus NGOs.

Today micro-credit occupies a great position in the national economy. Its impact on the national economic growth though is yet to be calculated accurately but it can be said it is not below 9%. Total disbursement by GO-NGO in the micro-credit sector was 70 thousand crore while it covered over 2 core beneficiaries. To develop a suitable tool for informal financial sector it needs consideration for the development of micro-credit sector along with that of the components of CAMEL in general. This may be done through adjustment with component of self-sufficiency, outreach, service quality and impact, which is a major, issue for MFIs.

1.6.0 Hypothesis

From the issues raised above and the problem stated, it can be said, it is the intention of the research to come to a conclusion that the proposed standards will serve the purpose of the micro finance industry in general as the CAMEL does for formal financial sector.

CHAPTER TWO

2.1.0 Methodology

The proposed CAMEL assessment instrument measures the level of sustainability of an MFI. However, it does not rate the institution in terms of client coverage per se, but rather; for example, it measures the financial implications of client coverage for the institution in terms of efficiency and profitability. Also, the CAMEL doesn't rate the institution in terms of social or economic impact at the client level.

With the above-mentioned realities in mind, this study will follow a cross sectional study design. The study design will also explore relevant retrospective data. It will be done basically on the basis of first hand and second hand data. Data will be collected through a set questionnaire as well as through delving into the facts of relevant documents e.g. monthly or annual reports.

The study is required to gather the following information for a CAMEL examination: (1) financial statements; (2) budgets and cash flow projections; (3) portfolio aging schedules; (4) funding sources; (5) information about the board of directors; (6) operations/staffing; and (7) macroeconomic information. Financial statements form the basis of the CAMEL's quantitative analysis. MFIs are required to present audited financial statements from the last three years and interim statements for the most recent 12-month period. The other required materials provide programmatic information and show the evolution of the institution. These documents demonstrate to the study, the level and structure of loan operations and the quality of the MFI's infrastructure and staffing. Once the financial statements have been compiled, adjustments need to be made.

Although the proposed CAMEL reviews the same five areas of CAMEL, but there are still scope of difference between formal financial sector and that of MFIs. Consequently, indicators for rating are bound to be different. To date, PKSF has used it own instrument as an internal assessment tool. The proposed CAMEL analyses and rates 31 key indicators, with each indicator given an individual weighting. Nineteen quantitative indicators account for 66 percent of the rating, and 12 qualitative indicators make up the remaining 34 percent. The final CAMEL composite rating is a number on a scale of zero to five, with five as the measure of excellence. This numerical rating, in turn, corresponds to an actual rating (strong, good, fair, marginal, unsatisfactory and not rated) which will accommodate to achieve the ultimate standard for the MFIs.

Sample Design

The method of random sampling is followed in this study. 30 (See Annex – II) PKSF Partner Organisations is randomly selected. Geographic location, size and age of the POs are taken into consideration so that the analysis may cover highest possible diversity of the MFIs. To get a clear picture of the POs, which are the larger segments of the POs, sample organizations are selected from OOSA (refers to organization that works in small area) category POs. Among them random basis are selected to cover a larger representation of the organizations.

Data collection

Data collection method is followed the memory recall method. This is not be a household survey, rather it is purely a survey of the MFIs. For the data collection the sample is picked up by random sampling technique. Following the random sampling method keeping in mind the PKSF enlisted POs are selected.

In this study data is collected from both first hand and second hand sources.

Value of the Study

This study can be useful for the following purposes:

I. This research will give the micro-finance sector the long cherished desire for having a set of standards for evaluating the MFIs

II. It will help the MFIs to know their points of strengths and weaknesses

III. As the MFIs will be able to brush aside their limitations, if there is any, they will be able to smoothing their flow of funds from the financial sources

IV. After being graduated the informal financial sector including Micro finance will get easy access to the formal financial sector, such as, commercial banks,

V. It will ensure financial and institutional viability of the MFIs and other informal financial concerns that include operational and financial soundness, economic solvency, quality of portfolio, etc,

VI. It will ease the monitoring and evaluation activities of the MFIs that will include their financial and operational performance, periodic study on impact of micro-credit, etc.

VII. It will help the MFIs to develop its financial management and internal control by implementing appropriate MIS, accounting system, internal audit, internal supervision, budgetary practices, etc

VIII. It will create and maintain expected institutional culture that includes sound governance, incentive base for management staff and employees, etc.

IX. It will help to develop the status of physical assets that includes ownership of real assets like building, land, furniture, vehicles, etc.

X. Overall, it will help get a clear picture about skill and strength, transparency and accountability of the concerns those come under the purview of informal financial sector.

2.2.0 Literature Survey

PKSF's development and use of the CAMEL is one of several efforts contributing to the establishment of a set of countrywide micro finance performance standards. In the past two years, other initiatives to gather and analyze financial performance data from MFIs have arisen including the development of a rating agency by the Private Sector Initiatives Corporation (PSIC); the Economics Institutes *Micro Banking Bulletin* Project, headed by Robert P. Christen and funded by the World Bank's Consultative Group to Assist the Poorest. These differences are outlined in several sources including Berenbach and Churchill (1997) and Rock and Otero (1997).

The PSIC effort is funded by the U.S. Agency for International Development (USAID), the Swiss Agency for Development and Cooperation, and the Inter-American Development Bank (IDB), Kenya *Micro Finance Institution (KMFI) Monitoring and Analysis Syste*m, funded by the British Department for International Development (DFID), formerly the Overseas Development Administration (ODA); and the PEARLS rating system, as used by the World Council of Credit Unions (WCCU). Parallel to these applied efforts has been the creation of several guides to gathering financial performance data, including the GEMINI projects 1995 publications on "Financial Management Ratios," by Margaret Bartel, Michael McCord, and Robin Bell; Robert P. Christen's *Banking Services for the Poor: Managing for Financial Success*; the Small Enterprise Education and Promotion (SEEP) Network's 1995 *Financial Ratio Analysis of Micro-Finance Institutions*; the Inter-American Development Bank's 1994 *Technical*

*Guide for the Analysis of Micro enterprise Finance Institution*s; and Women's World Banking's *Principles and Practices of Financial Managemen*t. The pioneer work in this area is MR. F Kader, *Rating Micro Finance Institutions (MFIs) in Relation to Sustainability Issues in Micro credit* (2001). It is a very good attempt although very fundamental type of work in this field. It tried to

apply the standards for the decision making of PKSF about financing to MFIs. It was presented in a workshop in BARD, Comilla. PKSF has its own work. It covered maximum of the avenues for identifying criteria or setting standards for financial organizations. Dr. M.A. Hakim's '*Performance Standards for MFIs: Tools and Indicators* (2001) is also a good work about rating MFIs. Moreover, CAMEL rating by Enayet Karim also enriched me about the rating system of Bangladesh Bank. Though most of the works covered a lot in the venture for overall identifying standards or indicators for financing the MFIs, but none of them covered them as a uniform tool. As, for example, for setting standards for performance those works confused with the objective sustainability. This paper will only have an exercise on the standards for decision making about financing the MFIs.

Proposed CAMEL's main priority is to create an internal assessment tool that allows its POs to reach the highest standards in terms of performance. This task is very much critical. Like PKSF, POs, Micro Finance Institutions (MFIs) also consider the financial markets as one of the sources for capital to meet the micro-enterprise sector's enormous demand for financial services. Any PO interested in gaining access to capital, must be able to provide accurate, consistent, and verifiable financial performance data, both to micro finance managers and to potential depositors, lenders, and investors. The proposed CAMEL standards used to rate PKSF POs are no less rigorous than those applied to traditional financial institutions. These high standards apply to asset quality, profitability, and other key indicators. Also, in some areas like provisioning requirements and leverage limit, the CAMEL standards for micro finance industries are even more rigorous. However, PKSF standards for CAMEL rating differ from those of the original CAMEL as it acknowledges the essential differences inherent to micro finance. For example, POs have a significantly higher level of operating costs in relation to outstanding loan portfolio, which is associated with making very small loans[4] PKSF's development and use of the CAMEL are two of several efforts contributing to the establishment of a set of uniform micro finance performance standards. In the past recent years, other initiatives to gather and analyse financial performance data from POs have arisen including the development of a rating

[4] These differences are outlined in several sources including Berenbach and Churchill (1997) and Rock and Otero (1997).

agency by the Private Sector Initiatives Corporation (PSIC)[5] ; the Economics Institute's *Micro Banking Bulletin* Project, headed by Robert P. Christen and funded by the World Bank's Consultative Group to Assist the Poorest. (CGAP); the BASE[6] Kenya *Micro Finance Institution (MFI) Monitoring and Analysis Syste*m, funded by the British Department for International Development (DFID), formerly the Overseas Development Administration (ODA); and the PEARLS[7] rating system, as used by the World Council of Credit Unions (WOCCU). Parallel to these applied efforts has been the creation of several guides to gathering financial performance data, including the GEMINI project's 1995 publications on "Financial Management Ratios," by Margaret Bartel, Michael McCord, and Robin Bell; Robert P. Christen's *Banking Services for the Poor: Managing for Financial Success*; the Small Enterprise Education and Promotion (SEEP) Network's 1995 *Financial Ratio Analysis of Micro-Finance Institution*s; the Inter-American Development Bank's 1994 *Technical Guide for the Analysis of Microenterprise Finance Institution*s; and Women's World Banking's *Principles and Practices of Financial Management* ACCION'S CAMEL is another development in the field of setting standards for MFIs. Ultimately, as worldwide data is amassed, a set of accepted standards and peer groups will emerge. Several of the institutions and individuals, including PKSF, mentioned above are currently coordinating efforts to develop common adjustments to financial statements and common ways of measuring key indicators to further develop standards for the micro finance industry.

2.3.0 Necessary conditions for an effective CAMEL study

PKSF's experience demonstrates that certain conditions must exist to successfully complete CAMEL rating of the selected Partner Organisations (POs).

Transparency and Availability of Information

The depth and quality of the CAMEL survey depends mainly on the availability of financial performance information. Availability of the information

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5 The PSIC effort is funded by the U.S. Agency for International Development (USAID), the Swiss Agency for Development and Cooperation, the Inter-American Development Bank (IDB).

6 BASE is British Aid to Support Enterprises.

7 PEARLS is Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity, Signs of Growth.

also rests on two factors: (1) a PO's ability to provide information, and (2) the PO's *willingness* to provide information.

Effort should be taken to match the ability to provide information flows primarily from institutions management information systems (MIS). The MIS is to provide accurate and timely information and be sufficiently flexible so that a variety of meaningful reports can be generated. It is due to the fact that in some areas, the CAMEL might require reports that the financial institution has never generated before and its MIS might not be able to automatically respond to the information requests.

The willingness of an institution to provide information steams from different issues. One issue is confidence on the part of management that the effort to gather the information is worth the result of the CAMEL survey. The confidence of the management depends on how CAMEL rating system benefits a PO, either internally or externally.

As noted previously, PO's basic acceptance of the value of the proposed CAMEL is in place from the beginning. Nonetheless, during a few of the initial CAMEL survey, the required information could not be easily obtained due to lack of familiarity with the in-depth nature of the rating system and with its practical value as a management tool. In most cases, once this obstacle is overcome by experience, the information gathering process is greatly strengthened.

Another issue is timing. Once an institution demonstrates the ability and willingness to provide the required information for the CAMEL analysis, the issue becomes when the CAMEL team can receive it. Ideally, a PO would provide the team with financial performance data *in advance* of the on-site survey. This has only occurred in a very few cases, mainly because of a lack of time on the part of busy micro finance managers and, as critical, the lack of a mechanism (and associated training) to easily gather the information off-site.

Trust

A second condition is related to trust and confidence on the part of PO management that the information provided will remain confidential unless the institution decides otherwise. Additionally, senior management is given the opportunity to respond in writing to the final written report. These comments are attached to the final report submitted to the Board. The objective of the study should be translated to the management of the PO.

Availability of staff for Interviews

A third condition is the availability of staff for interviews by the researcher. Such willingness is initiated and directed by the Executive Director of the institution and requires that the examination be carefully scheduled by the Executive Director to take into account the significant investment of time required by the entire staff. The study requires verification and cross-checking of information that involves visits to the Micro Finance Institutions (MFIs) branches, visits with clients, and interviews with local staff at various levels of the institution. This due diligence process requires a significant investment of time on the part of the local staff to coordinate field visits, obtain credit files, and be interviewed themselves.

Level of skill requires.

The skills required of the study team span a range of disciplines including financial analysis, micro-credit methodology, internal control and internal audit, Organisational development and human resources, and management information systems. Each member of the study team must also have expertise in the broader context of Micro finance.

Level of Effort

The level of effort required to complete a CAMEL survey depends upon several variables including the level of complexity of the institution, whether a CAMEL examination has previously been completed, and the extent to which the requisite financial performance information is readily available and provided on a timely basis.

Study Team Composition.

The study initially believed that the study survey team should include individuals outside PKSF. Because of the closeness of the technical assistance relationship between PKSF and its affiliates, it is felt that the PKSF employees involved in CAMEL would be sufficiently objective to dissect the inner workings of the institution. The participation of these outside professionals is unsuccessful, however, because they lacked several important characteristics including an in-depth knowledge of Micro finance and a professional commitment to the task, which is deemed a low priority in the broader portfolio of activities of the accounting/consulting firm. Another problem is the lack of permanence of these professionals in the CAMEL effort because they are rotated through different client's project rather than staying with the PKSF program. The level of experience of the survey team is an important contributor to the conclusions of the CAMEL. Although the study clearly defines areas of analysis, procedures, required information, and rating criteria (ensuring standardized application), team members draw on their own

experience in assessing Micro Finance Institutions (MFIs)as they integrate the qualitative and quantitative indicators. The ability to take the information and impressions gathered during a CAMEL study, organize and analyse this information, and adequately contextualize the results requires experience with a range of POs.

The Process

There are two dimensions in determining the division of labor to complete the first three tasks of the CAMEL: the CAMEL study team effort and the institutional effort. (The fourth task, which involves the process of determining the rating, is may be completed by the team only.) The institution receives a list of required information that falls into several areas including economic, financial, portfolio quality, accounting, human resource management, strategic planning and budgeting, and procedures and manuals. Ideally, the institution would gather and send the quantitative information to the CAMEL study team in advance, and would gather the information required to assess qualitative indicators (such as the personnel manual) before the team's arrival on-site. Only when this information is available can the CAMEL study team focus on the verification and analysis of the quantitative data and on the measurement of the qualitative indicators through interviews and observations.

2.4.0 The Study Team Report

In this part the CAMEL study team makes two separate on-site presentations; the first presentation is made to the institutions senior management team and the second to the Board of Directors. These critical presentations ensure that CAMEL findings reach the highest levels of the institution. The presentation to senior management enables the staff of the institution to comment on the CAMEL results and, perhaps, identify where the team may have made faulty assumptions or interpretations. The presentation to the Board is less detailed than that to the staff, but highlights all the key issues and conclusions reached by the CAMEL study team. A challenge faced by the CAMEL study team lies in obtaining a significant level of attendance at these presentations by members of the Board.

In the weeks following the on-site assessment, the study team prepares a comprehensive but concise written report and sends a draft to the Executive Director of the institution. The draft includes the following:

- An executive summary.
- Detailed narrative analyses of each of the 39 quantitative and qualitative indicators (usually up to one page on each indicator).

Reference is made to the supporting indicators, where relevant. Because the proposed CAMEL instrument is suppose to be an integral component of the technical assistance PKSF provides, the report not only identifies issues or problems that the PO might have, but also recommends improvements in these weak areas.

- The CAMEL-adjusted financial statements, which incorporate the previous three years of data plus the most recent interim statement.
- A listing of the resulting key and supporting indicators.
- Various appendixes including a classification of loan portfolio and breakdown by aging, programmatic statistics, and entries made for each adjustment with corresponding background information.

Upon receipt of the report, the senior management of the PO is allowed two weeks to respond in writing to the proposed CAMEL study team. If this response is received within the two-week period, the comments are annexed to the final version of the report sent to the Board. If the proposed CAMEL study team deems it appropriate, these comments may also be incorporated into the narrative analysis of the final report.

2.5.0 Challenges to the proposed CAMEL

The first challenge in the development of the proposed CAMEL instrument is to define the key variables to assess the performance of a Micro Finance Institution (MFI) and to decide how to measure these variables. For example, in assessing the quality of a Micro finance loan portfolio, the key variables identified are the delinquency and write-off rates, and the portfolio classification system. How to measure these variables represents another challenge. For example, the concept of delinquent portfolio rather than payments past due, is selected as a measure of portfolio quality, with a period of 365 days past due considered as the relevant cut-off point for measuring the delinquent portfolio. In selecting the key indicators, it is also important to identify independent variables. Defining the standards to measure the financial performance of Micro Finance Institutions (MFIs) is the second significant challenge in developing CAMEL instrument for PKSF. No database of information existed that defined an expected and realistic level of financial performance for Micro Finance Institution (MFI)s. PKSF based the initial standard ranges on available information. Then, a series of three pilot applications of the CAMEL are completed, in assessing ASA after which revisions are made to the instrument. In the last four years, PKSF has continued to make significant progress in refining these standards, but the effort is ongoing.

The first major challenge to applying the CAMEL is the availability and accessibility of information. Because of the CAMEL's rigorous information requirements, which initially included two-year's worth of financial and programmatic information, relatively sophisticated management information systems (MIS) become essential[8]. In many cases, such MIS are nonexistent. In some cases where the PO may have had the MIS capacity, its staff is unaccustomed to extracting the information needed for the CAMEL examination. PKSF affiliates have made significant progress in overcoming this challenge, but efforts are underway to further streamline the information gathering process.

The Micro Finance Institutions (MFIs) sensitivity to the rating system posed another challenge. Although PKSF affiliates supported the idea of the CAMEL as a guide to improving performance and, eventually, as a "stamp of approval" for accessing formal financial markets, few are actually prepared to disclose the results of a CAMEL assessment to outside parties. Taken this issue in perspective, proposed CAMEL results are designed to be kept confidential. In the future, however, a key challenge is how to publicly disseminate the results of the CAMEL. As long as the results are kept confidential, the value of the proposed CAMEL would remain limited to its internal use by PKSF POs. However, by providing an objective assessment of a PO and reducing its risk profile in the eyes of outsiders, the CAMEL should become an increasingly powerful tool for broadening a PO's access to capital, both domestic and international.

[8] The PKSF proposed CAMEL currently includes two years of audited financials plus the most recent interim Statement.

CHAPTER THREE

3.1.0 The proposed CAMEL Analysis Process

This part of the study analyses and rates 31 key indicators (Figure 3.1). These indicators are grouped under the five major areas of analysis (CAMEL). The indicators are either *quantitative* or *qualitative* and each is given a weighting (Table 3.1). Nineteen quantitative indicators (ratios) contribute to 64 percent of the final rating; 12 qualitative indicators contribute to 36 percent of the final rating. Performance of each indicator will be determined in terms of the average score collected from the spread sheets which contain the relevant performance data of the randomly selected 30 PKSF's POs. The score for each indicator will remain within the predetermined scale of 0-5. This scale ranging between 0-5 will be determined in terms of the stakeholders' suggested range for performance evaluation. For each indicator's individual value will be weighted with the assigned weight. This assigned weight is determined depending on the impact of performance indicators on the components of CAMEL. Then each of the components of CAMEL will get a weighted average mean which will eventually set the performance standard. However, we can get an overall composite rating using five components of CAMEL.

The proposed CAMEL examination process is aimed to offer additional three components for the rating of a PO:

- The relevance of each indicator within the context of micro finance,
- The ranges or descriptive information that allow the study to give the institution a rating on a scale of zero to five (with five as the measure of excellence), and
- The weightings for each indicator.
- The process of the proposed CAMEL includes Spreadsheets, which contain two types of information:
- The institutions balance sheet and income statement, which have been inputted into the spreadsheets and adjusted to make the financial information comparable across institutions; and
- Programmatic statistics related to the Micro Finance Institution (MFI).

The adjusted balance sheets and income statements of the CAMEL Spreadsheets are used to generate the key quantitative indicators (Table 3.2). This adjusted data is also used, along with the programmatic statistics,

to generate what are considered to be supporting indicators. These quantitative supporting indicators are not used in the rating system, but they are supposed to allow better understanding of the factors impacting upon a given indicator, either quantitative or qualitative. The information to measure the qualitative indicators is gathered through interviews of the concerned staff and analyses of the institutions' policies and procedures. Qualitative indicators analyse those aspects of the institution which are non-quantifiable having direct impact on the financial situation and performance of the institution. The qualitative indicators are highly specific and applied consistently to each institution. Qualitative indicators are used in conjunction with quantitative indicators in each of the five main areas examined under CAMEL with the exception of the management assessment, which is exclusively qualitative.

Figure 3.1: CAMEL Analysis Process

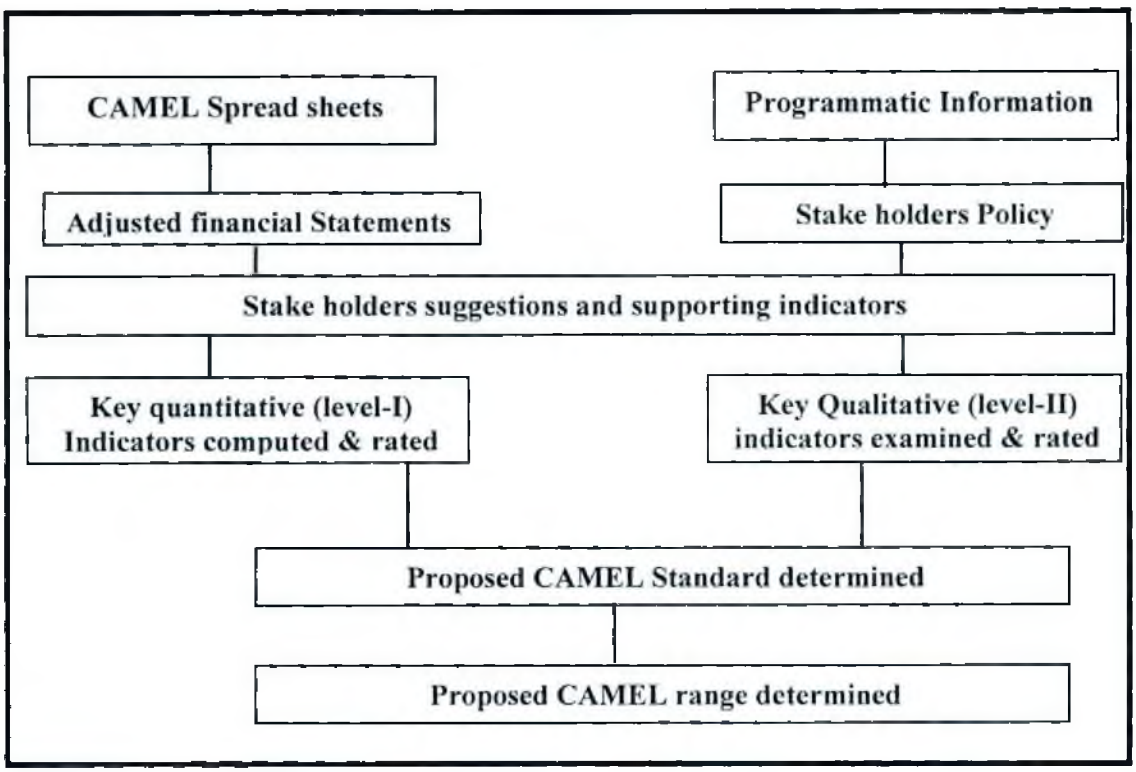

Table 3.1: CAMEL Indicators with Weightings.

Quantitative (level-I) Indicators	Weighting (%)	Qualitative (level-II) Indicators	Weighting (%)
Capital Adequacy (15%)			
Leverage:			
Debt Equity Ratio	4	Reserve Policy	4
Savings Ratio	3		
Ability to Raise Equity :			
Capital Total Asset Ratio (with Fixed Asset)	2		
Adequacy of reserves :			
Reserve Ratio (RR)	2		
Asset Quality (20%) :			
Portfolio Quality :			
On Time Realisation (OTR)	3	Infrastructure	2
On Demand Realisation (ODR)	3	Portfolio classification System	4
		Productivity of the long term Asset	2
Portfolio at risk :			
Delinquency Rate (DR)	3		
Loan Loss Provision	3		
Management (23%) :			
Cost structure Analysis :			
Income/Average Performing Asset	3	Governance	4
Finance Cost/ Average Performing Asset	2	Human Resources	2
Operational Cost/ Average Performing Asset	3	Process, Controls and Audit	3
LLP. Cost/ Average Performing Asset	2	Information Technology System	2
		Strategic Planning and Budgeting	2
Earnings (24%) :			
Profitability Analysis :	6		
Operational income		Interest Rate Policy	4
(-) Finance Cost			
Gross income			
(-) Operational Cost			
Gross Operational Margin			
(-) Loan Loss provision & Imputed cost			
Net Operational Margin			
Operational Self Sufficiency ratio	4		
Return On Equity (ROE)	5		
Return On Asset (ROA)	5		
Liquidity (18%) :			
Current Asset(CA) to Current Liabilities (CL)	4	Liability Structure	2
Productivity of other CA	3	Availability of funds to meet credit demand	3
Capital Total Asset Ratio (without Fixed Asset)	4	Cash flow projections	2
Total 100%	64%		**36%**

Table 3.2: Ratios Used to determine Camel Quantitative (level – I) Indicators.

Area / indicators	Ratio
Capital adequacy :	
Leverage:	
Debt Equity Ratio	= Debt / Equity
Savings Ratio	= Savings Outstanding / Av. Loan Outstanding
Ability to Raise Equity :	
Capital Total Asset Ratio (With Fixed Asset)	= Capital / Total Asset
Adequacy of reserves :	
Reserve Ratio (RR)	= Loan Loss Reserve(DMR) / Loan Outstanding
Asset Quality :	
Portfolio Quality :	
On Time Realisation (OTR)	= Amount Recovered for the period / Amount due for the period
On Demand Realisation (ODR)	= Amount Recovered for the period / Amount Recoverable to period
Portfolio at risk :	
Delinquency Rate (DR)	= Amount Overdue / Total Outstanding
Adequacy of Loan loss Provision	= Actual Reserve / Av. Loan Outstanding
Management :0	
Cost structure Analysis :	= Income / Average Performing Asset = Finance Cost / Average Performing Asset = Operational Cost / Average Performing Asset = LLP. Cost / Average Performing Asset
Earnings :	
Profitability Analysis :	Operational income (-) Finance Cost Gross income (-) Operational Cost Gross Operational Margin (-) Loan Loss provision cost **Net Operational Margin**
Operational Self Sufficiency ratio	= Total Income / Operational Expenditure+DMR
Return On Equity (ROE)	= Net Income / Total Equity
Return On Asset (ROA)	= Net Income / Total Asset.
Liquidity :	
Current Asset(CA) to Current Liabilities (CL)	Current Asset / Current Liabilities
Productivity of other CA	Bank interest / Other CA.
Capital Total Asset Ratio (Without Fixed Asset)	Capital / Total Asset

Table 3.3 : Proposed CAMEL standard for quantitative Assessment (Level – I)

CAMEL Components	Indicator	Stakeholders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Capital Adequacy	Debt Equity Ratio (DER)					
	Savings Ratio (SR)					
	Capital Total Asset Ratio (with fixed Asset) KTA					
	Reserve Ratio (RR)					
Asset Quality	On Time Realisation (OTR)					
	On Demand Realisation (ODR)					
	Delinquency Rate (DR)					
	Loan Loss Provision (LLP)					
Management	**Cost Structure Analysis:**					
	Income/APA					
	FC/APA					
	OC/APA					
	LLP/APA					
Earnings	Net Operational Margin					
	Operational Self Sufficiency Ratio					
	Return On Equity (ROE)					
	Return On Asset (ROA)					
Liquidity	Current Asset (CA) to Current Liabilities (CL)					
	Productivity of other CA					
	Capital Total Asset Ratio (Without Fixed Asset)					

Table 3.4: Proposed CAMEL standard for qualitative Assessment (Level – II)

CAMEL Components	Indicator	Proposed CAMEL standard	Assigned weight	Acquired Score	Weighted Mean	Remarks
Capital adequacy	Reserve Policy					
Total						
Asset Quality	Infrastructure					
	Portfolio Classification System					
	Productivity of long Term Asset					
Total						
Management	Governance					
	Human Resource					
	Process control and Audit					
	IT System					
Total						
Earnings	Interest Rate Policy					
Total						
Liquidity	Liability Structure					
	Ability to Meet Credit Demand					
	Cash Flow Projection					
Total						

3.2.0 Proposed CAMEL Ranges

Once the information is gathered and, in the case of the quantitative indicators, adjusted and analysed, each indicator is given a range. For the quantitative indicators, the numerical result of a given ratio determines the range. For the qualitative indicators, the given policy or procedure is analysed, the stakeholders suggestion range will provide a guidance on how to rate the PO for this particular indicator. Once an indicator has been rated, it is multiplied by a pre-determined percentage (weighting). Adding up all of these weighted ratings determines the *component* rating in each of the five areas (CAMEL). These component rating are set to compute a final *composite* rating keeping in pace with the stakeholders suggested range. These final CAMEL composite ranges are to set the standards which are numbers in a scale of zero to five, with five as the measure of excellence. Once the standard is derived than the range for the indicators at developed for the 0-5 scale to obtain a GPA by using the assigned weight. This corresponds to a specific rating system under the categories of strong, satisfactory, fair, marginal, unsatisfactory, and not rated. In this context, it is important to point out that the range covers a broad spectrum of institutions and does not necessarily represent a continuum of movement from the NGO sector to the formally regulated sector. Rather, it represents a continuum of the quality and level of sophistication of financial management of the institution independent of its corporate structure. The standard derived from this process provides the framework and parameters for assessing POs.

Standard Category generally indicates a PO with strong financial performance in all of the areas analysed. Such performance has been maintained over time and is a result of carefully developed policies and planning. In general terms is considered excellent but may be Scored lower in some variables for minor weakness other than standard category PO indicate that the PO needs certain adjustments in the management of administration and operational efficiency. Considering the weighted average of the means of the components of the CAMEL, the formula for assessing the performance of a model MFI can be as follows:

$$\textbf{Model MFI} = (a_1+a_2)C + (b_1+b_2)A + (c_1+c_2)M + (d_1+d_2)E + (e_1+e_2)L$$

Where a, b, c, d, e are considered as the weighted co-efficient for each component of the CAMEL.

Where

a = the weighted average mean of the indicators of Capital Adequacy

b = the weighted average mean of the indicators of Asset Quality

c = the weighted average mean of the indicators of Management

d = the weighted average mean of the indicators of Earnings

e = the weighted average mean of the indicators of Liquidity

1 and 2 indicate quantitative (level i) and qualitative (level ii) indicators respectively.

These co-efficients have been calculated from the mean responds of the co-efficients. Here all the co-efficients are weighted as per the importance of the components and then the mean variables are converted to 0-5 scale considering 5 as the 100 percent contributions.

CHAPTER FOUR

4.1.0 CAMEL information & adjustments

This chapter- (1) outlines the information required from the PO to conduct the CAMEL evaluation; (2) describes the various adjustments that the examiner makes to the financial statements—the *reasons* for them and the *mechanics* of each; and (3) discusses the relevance of the 31 indicators for each of the five areas (CAMEL) analyses and provides a definition of each as well as the ranges or criteria for rating (zero to five) the Micro Finance Institution (MFI) in each area for all indicators.

4.1.1 Information required from institution

Financial Statements:

- Audited financial statements for the past three years, including Management Letters; and
- Un-audited financial statements, including balance sheet, income statement, and cash flows, from most recent period and same period for prior two years.

Budgets/Projections:

- Annual budgets for the past three years, approved by the Board of Directors/proper authority;
- Cash flow projections; and
- The most recent strategic plan, including financial projections.

Portfolio quality:

- Aging schedules of the loan portfolio for most recent period and year-end for the past three fiscal years; and
- Loan portfolio risk classification.

Funding:

- Detailed outline of donations received (monetary and in-kind) with amounts, conditions, and uses; and
- Documentation on credit facilities and loan agreements.

Board Information:

- Minutes from board meetings from past three years; and
- Background on board members including curricula vitae (CVs) and other documents outlining current employment and experience.

Operations/Staffing:

- policies and procedures manuals in areas such as credit, personnel, collections, and provisioning;
- Information on employee benefits programs, including loan officer incentive program;
- Yearly analysis of new hires and employees who have left the institution for the past three years; and
- Programmatic data.

Macroeconomic Information:

- Local bank and finance company's report on loans and deposits for the past three years;
- Local consumer price index for the past three years;
- Exchange rate between dollar and local currency for the past three years;
- Local GNP per capita for the current year; and
- Local minimum monthly wage for the past three years.

4.1.2 Financial statements and the adjusted CAMEL format.

The financial statements offer the basis for the CAMEL's quantitative analysis. The specific format for the statements is used first to convert the institution's financial data into CAMEL accounts and then to incorporate the adjustments. The adjusted financial statements are presented in local currency.

Preparing financial statements in constant local allows the study to compare performance over the periods recorded without taking the distorting factor of annual inflation into account. Converting to constant currency involves taking the most recent period analysed as the base period and restating prior periods in base-period terms using the inflation rate for those prior periods.

Three years worth of audited financial statements are used here to get the proposed CAMEL range.

For example, the most recent period available for an evaluation is June 30, 2001 then that period will be compared to June 30, 2000. In addition, the audited statements for December 31, 2000 December 31, 1999, and will be included and analysed.

Although indicators are calculated for all periods analysed, the key quantitative indicators used for the final ranges are taken from the most recent period. Annex A presents the CAMEL-formatted financial statements designed for the proposed CAMEL (balance sheet and income statement) for the period June 30, 2000, to June 30, 2001, and provides definitions of all accounts used.

4.1.3 Information on programmes.

The information on programmes for the proposed CAMEL study is gathered for all of the periods analysed and is used to show the evolution of the institution as well as to calculate a number of supporting indicators that are used in the analysis. The information is obtained principally from the finance and administration, loan operations, and human resources areas.

Credit activity:

- Number of active borrowers—number of clients currently receiving credit from the institution.
- Number of active solidarity groups—number of solidarity groups currently receiving credit from the institution.
- Total borrowers—total number of borrowers that have received credit since the institutions inception.
- Total solidarity groups—total number of solidarity groups that have received credit since the institution's inception.
- Total amount of credit disbursed during the period—total amount of loans made in the period.
- Total amount of first-time loans disbursed during the period—total amount of loans to first-time borrowers made in the period.
- Number of credit operations—total number of loans disbursed during the period.
- Average loan portfolio—the average of the monthly gross portfolio balances.

Infrastructure/Staffing:

- Number of branches—offices that are very decentralized, and operate with a certain amount of administrative autonomy.
- Number of agencies—offices that typically are manned by only one loan officer and a receptionist, and depend heavily on a branch office.
- Number of persons Hired—Number of people hired as regular employees for the Micro finance activity during the period.
- Number of employees leaving the PO—number of employees of the Micro finance activity who leave the institution during the period.
- Number of current employees—total current number of employees of the micro finance activity.
- Number of loan advisors—total current number of loan officers.
- Number of field personnel—collection agents, marketing agents, and branch managers (if branch managers report to operations rather than Administration).

4.1.4 CAMEL Adjustments

The CAMEL carries out a total of six adjustments[9]

- Adjusting the scope of micro-finance activity as many POs are involved in activities other than micro-finance; this includes NGOs involved in various development activities and commercial institutions offering financial services to diverse sectors. Therefore, the CAMEL segregates the Micro finance activity for the analysis to measure its performance and viability separate from the overall institutional performance.

[9] Annex IV provides a worksheet with the study of 30 POs of PKSF with all adjustments, except Adjusting for the Scope of Micro finance Activity, and instructions on completing the adjustment and entering it into the financial statements.

- Based on the volatile nature of micro-loan portfolios, the proposed CAMEL has identified the need for POs to provision more rapidly than traditional financial institutions and has developed provisioning rates (Table 4.1).

Table 4.1: Proposed CAMEL Provisioning Rates (See Annex – 1.A)

Rescheduled Aging Status	Provision percent	
	Classification Basis	Required provision
Current Overdue	1-50 Weeks	-
Doubtful loans (current)	51-100 Weeks	50%
Bad loan	100 + weeks	100%

***Note : Regular portfolio is defined here as portfolio that has not been rescheduled.**

- Adjusting LLP (loan loss provision) is determined by the provision required as a percents of loan outstanding because the POs of PKSF are monitored as per prescribed manual of PKSF.

- Adjusting for explicit and implicit subsidies as to obtain a true picture of the PO's potential for commercial viability, the institution's financial statements must be adjusted for subsidies. The most obvious subsidies are direct donations, which are typically accounted for by POs as revenue. If the institution is a commercial entity, the equivalent of these donations would be equity investments. Therefore, the CAMEL adjustment removes cash donations from the income statement and reclassifies them as capital on the balance sheet. A second subsidy that needs to be adjusted is subsidized debt. PKSF POs have access to below-market financing for their portfolios. However, the savings they obtain from these low-interest loans are not necessarily passed on to borrowers. In fact, this type of subsidy actually may mask real inefficiencies in the institution and skew profitability. The purpose of adjusting for subsidized debt is to demonstrate the cost of those funds at commercial rates and the institution's ability to cover those costs. A PO interested in becoming a financial intermediary usually will not have access to subsidized funding and must, therefore, establish that it is capable of covering the cost of commercial funds. Subsidized debt refers to those PO liabilities that carry an interest rate that is 75 percent or lower than the "alternative commercial funding source" for the PO. The alternative commercial funding

source is (a) the three-month CD rate if the PO is capturing deposits, or (b) the average short-term loan rate in the financial system if the PO cannot capture deposits (as per Bangladesh Bank rules). Once it is determined that a liability needs to be adjusted, the interest rate used for the adjustment depends on the cost of alternative commercial funding available to the institution. If the PO borrows at commercial rates of interest, the weighted average of the PO's liabilities at commercial rates of interest should be calculated and the resulting interest rate used to adjust the institution's subsidized debt. If, on the other hand, the institution has no liabilities at commercial rates of interest, the interest rate to be used for adjusting subsidized liabilities is the average interest on short-term loans of the financial system where the PO operates. Where interest rates are regulated resulting in negative real rates of interest paid on the PO's liabilities (interest rates below the local inflation), the subsidized debt should be adjusted using the local inflation rate. Finally, some POs operate with rent-free or significantly subsidized facilities. Others may receive assistance from external consultants or have key managers paid for by outside parties. The operating subsidy adjustment is used to estimate the additional cost the institution would incur if it did not receive these subsidies. However, in these cases, it is important that the examiner determines whether the institution would have entered into an agreement for a given facility or consultancies, if not for the subsidy or in-kind donation received. The answer to this aspect should be reflected to the extent, if any, of the adjustment made to the financial statements.

- Adjusting for the effects of inflation as in our country PKSF POs operate in inflationary economies where the value of goods and services is constantly increasing while the real value of money is decreasing. For a financial institution whose major assets are monetary, maintaining the value of those assets against the effects of inflation poses a challenge. Inflation has two major effects on the institution. The real value of fixed assets will keep pace with inflation, and, to the extent that equity is tied up in monetary assets, the real value of equity will be eroded. In non-inflationary economies, fixed assets are accounted for at original cost. In inflationary economies, however, accounting standards may allow

for fixed assets and equity to be adjusted to keep up with inflation. Accounting for inflation as per the quarterly report (June 2003) of Bangladesh Bank is used for the proposed CAMEL fully adjusts for inflation.

- Adjusting for accrued interest income as regulated financial institutions may accrue interest on loans provided they are current or past due up to a specified period of time. But once a loan becomes past due beyond the specified period, the institutions are required to stop accruing interest as the likelihood of actually collecting that interest is decreased. Because of the frequent payments made on micro-loans accruing interest is uncommon among POs and, if done, the amount of accrued interest income is generally small. This adjustment involves eliminating interest income accruals on portfolio past due over 1 year from the income statement and balance sheet because not doing so overstates the PO's income given the small probability of collecting that interest.

CHAPTER FIVE

5.1.0 CAMEL Scoring

This chapter discusses the relevance of the 31 quantitative and qualitative indicators for each of the five areas (CAMEL) analysed[10]. Then it provides a definition of each area and accordingly set the standards or criteria for rating the Micro Finance Institution (MFI). However, the range for each individual ratio has been developed in the scale of 0-5 to obtain a GPA by using the assigned weight for all components of CAMEL.

5.2.0 Capital Adequacy Scoring

Table: 5.1 Capital Adequacy Scoring.

Quantitative Indicators	Wtg. (%)	Qualitative Indicators	Wtg. (%)
Capital Adequacy (15%)			
Leverage:			
Debt Equity Ratio	4	Reserve Policy	4
Savings Ratio	3		
Ability to Raise Equity :			
Capital Total Asset Ratio (with Fixed Asset)	2		
Adequacy of reserves :			
Reserve Ratio (RR)	2		
Total	11%		4%

The objective of the capital adequacy analysis lies in measuring the *financial solvency* of an institution, which consists of determining whether the risks incurred by the institution are adequately offset with capital and reserves to absorb potential losses. Credit risk, for example, has a direct impact on a bank's capital position. Profits are diminished through provision expenses to cover actual or potential losses through the allowance for loan losses. Lower profits mean lower equity capital. One of the key indicators for a financial intermediary is the relationship between the institution's capital base and its assets or liabilities.

Nevertheless, there are five quantitative and two qualitative indicators to measure capital adequacy. Debt equity and savings ratio are two determinant for the leverage where capital total asset ratio (with and without fixed asset) are two indicator which is relevant with ability to raise equity. As the capital adequacy measures the capacity to absorb the potential losses, reserve ratio and the policy is also important to analyse the loss absorbing capacity of a PO.

[10] Table 3.1 in Chapter three shows the breakdown of all 31 indicators, with weightings, for the five CAMEL areas. Table 3.2 in Chapter three shows the ratios used to determine the quantitative indicators.

5.2.1 Leverage (Quantitative)

Under this category, two indicators are relevant to measure leverage capacity of a PO. Debt equity & savings are the two appropriate ratios. The numerator of the 1st indicator debt can be found by identifying each of these categories. The denominator is the CAMEL-adjusted equity of the institution. Significant adjustments to equity will have a marked impact on the institution's leverage, or level of indebtedness. Once calculated, the leverage (Debt/equity) value is put on a scale of zero to five which is derived from the stake holders' suggestions.

Table : 5.2 Assessing Leverage

Scale	CAMEL Proposed Debt/Equity ratio	Proposed CAMEL Range for Savings Ratio
5	Less than 2.50	Over 31%
4	2.50 – 3.00	32% – 30%
3	**3.00** – 3.50	**30%** – 28%
2	3.50 – 4.00	28% – 24%
1	4.00 – 4.5	24% – 16%
0	Over 4.5	Less than 15%

These leverage ratios are applied either to NGOs or to profit making institutions with limited access to private equity, which is the typical profile of institutions lending currently to the micro-enterprise sector. If, however, the micro-finance activity is carried out by an institution (such as a large commercial bank) to mobilise significant amounts of equity in a short period of time and the portfolio of the institution is diversified (including various loan products other than micro finance loans), a higher level of indebtedness would be justified and the range would be determined on case-by-case basis in this study. In MC, savings is also very effective ratio to determine capital adequacy. It is expected to raise this ratio to a certain level which is determined by the stake holder's suggestions. To assess the leverage value of an MFI, the debt/equity and the savings ratios are analysed. The stakeholders suggested value for these two ratios are 2.5 and 28%. The average mean of the mean of 30 demonstrated and the 3 top rated Pos of PKSF are 3.11 and 33%. The proposed CAMEL standard for the debt/equity and the savings ratio are 3 and 30%.

5.2.2 Ability to Raise Equity (Quantitative)

The study is concerned not only with the financial solvency of the institution at a given time, but also with the institution's ability to respond to a need to fill up or increase equity. Such a need could arise, for example, as a result of the deterioration in asset quality or because of the growth rates that go beyond profits reinvested in the business. This is a component which is very much effective for quantitative assessment of capital adequacy. Capital total asset ratio is also important to measure the ability to raise equity to gauge the ability to raise equity where fixed asset play an important role. In this regard, the scale and the weight are allocated on the basis of the review of the stakeholders' suggestions. To assess the ability to raise equity of an MFI, the capital/Total Asset (with fixed asset) ratio is also analysed. The average mean of the means of 30 studied and other top 3 POs of PKSF is 38%. The proposed CAMEL standard for capital/total asset (with fixed asset) ratio is 30% as the capital/total asset ratios for the giant MFIs are influenced by their good capital structure.

Table : 5.3 Assessing Ability to Raise Equity

Scale	Proposed CAMEL Range for Capital Total Asset (With fixed Asset) ratio
5	Over – 35%
4	35% – 30%
3	30% – 25%
2	25% – 20%
1	20% – 15%
0	Less then 15%

5.2.3 Adequacy of Reserves (Quantitative)

The reserves, established by a financial institution, are created to absorb losses that have a high prospect of taking place, and are different from the general business risk incurred by the institution. For example, an increase in interest rates on monies, borrowed by the institution without the ability to increase its loan rate by a commensurate amount, will result in a reduction in profits if all other things are equal.

A financial institution is not able to do provision for shift in interest rate as it constitutes a general business risk. The reserves, established by financial institutions, include loan losses, foreign exchange fluctuations, and employee benefits. The principal reserve examined under this indicator is the one for loan losses.

However, the study evaluates whether other reserves would be required and attempt to quantify these reserves to determine their impact on the institution's financial statements. In this regard it is important to mention that commercial financial institutions have a tendency to create reserves to evade tax burden. Thus, regulators have very clear policies regarding the creation of reserves. But for a non-profit institution, the tax incentive is not applicable; instead, the institution is generally interested in *not* reducing profits by a loan-loss provision and in *not* signalling to donors, via the creation or increase of a reserve, that asset quality is deteriorating. The study evaluates the sufficiency of the loan loss reserve by taking into account the following:

- CAMEL-adjusted historic loan loss rate,
- Rescheduled loan portfolio,
- Loan portfolio aging schedule, and
- Size of current loan loss reserve.

The CAMEL-adjusted provisioning requirements will be harsher if the institution is rescheduling and, in doing so, reclassifying the loan as current. To assess adequacy of reserves of an MFI, actual reserve/Av.loan outstanding ratio is analysed though the actual reserve/required reserve which is a very appropriate ratio to assess adequacy of reserve. Here the average mean of 30 demonstrated and 3 top rated POs of PKSF is 4.5% of loan outstanding. The proposed CAMEL standard for this ratio is 4%.

Table: 5.4 Assessing Adequacy of Reserves

Scale	Proposed CAMEL Range for reserve ratio
5	Over 5%
4	5% – 4%
3	4% – 3%
2	3% – 2%
1	2% –1%
0	Less then 1%

5.3.0 Asset Quality Scoring

Table: 5.5 Asset Quality Scoring

Quantitative Indicators	Wtg. (%)	Qualitative Indicators	Wtg. (%)
Portfolio Quality:			
On Time Realisation (OTR)	3	Infrastructure	2
On Demand Realisation (ODR)	3	Portfolio classification System	4
		Productivity of the long term Asset	2
Portfolio at risk:			
Delinquency Rate (DR)	3		
Loan Loss Provision	3		
Total	**12%**		**8%**

There are three quantitative and five qualitative relevant indicators for measuring the asset quality of a PO. The qualitative indicators are the OTR (On time Realisation Rate), ODR (On demand Realisation Rate) and the delinquency rate to determine the asset quality. On the other hand, write off policy infrastructure, portfolio classification system, productivity of the long term asset and the loan bass provisioning policy are the key determinants for assessing the asset quality.

The asset quality of a Micro Finance Institution (MFI) refers primarily to the quality of the institution's main asset, the loan portfolio, despite the fact that the productivity of the entity's fixed assets and long-term investments are also important. The combined performance of these assets reflects the quality of the management of the institution's basic business. Whether the institution is a non-profit or for-profit entity, the analysis in this area is identical. The character of the organisation will not influence the performance of the portfolio, nor affect the acceptable levels of asset quality adjusted to match the type of entity. Clear policies for credit and collection, a proven lending methodology, and good monitoring systems alone do not guarantee a low late payment rate. These procedures (discussed later under management area) must be combined with a serious attitude toward repayment—that is, a corporate culture that simply does not tolerate late payment, a quality that is measured in the final results.

The analysis of asset quality is divided into three areas: portfolio quality, which includes portfolio at risk and loan loss rate; portfolio classification system; and other assets, which demonstrate the productivity and appropriateness of the institution's fixed assets and the policy for investing in fixed assets. The portfolio quality of a PO is measured in the final results. Therefore, the two key indicators in this area are portfolio greater

than 50 weeks past due and loan loss rate. The portfolio past due indicator shows the percentage of the portfolio that is at risk of non-payment and indicates potential losses. In contrast, the loan loss rate indicates the level of actual and adjusted write-offs portfolio at Risk (Quantitative)

- Historically, POs have reported their portfolio at risk as the total amount of payments past due divided by the total portfolio. However, this method underestimates the fact that if a loan has one or more payments past due then not only those payments are at risk of remaining unpaid, but also the entire balance of the loan is at risk. Therefore, this conservative measurement and the one traditionally used by the banking sector calculate the total balance of loans with payments past due which will be divided by the total portfolio. For this indicator, the institution is asked to prepare a portfolio aging schedule based on the following categories:
  - Current loans —loans that have no payments past due.
  - Rescheduled loans—loans that are current but have been rescheduled at some point in the past.
  - 51-100 weeks—loans with a payment or payments past due from 50 to 100 weeks.
  - Greater than 100 weeks —loans with a payment or payments greater than 100 weeks past due (not including loans in legal recovery).
  - 100 weeks legal recovery—loans that are in iegal collection proceedings.

The proposed CAMEL rating system uses the portfolio greater than 50 weeks past due (the sum of the aging categories beginning with 50 to 100 weeks), including loans in legal recovery, to calculate this indicator range.

Micro finance loans are typically short-term, averaging 50 weeks, amortized weekly or biweekly. Therefore, within a 50 weeks period, anywhere from two to four payments come due on a typical loan. If an institution has any rescheduled portfolio between zero and 50 weeks, it should also be added to the numerator of the past due indicator to recognize that it represents a greater risk than the non-rescheduled portfolio which is between zero and 50 weeks. If the institution is only able to provide a global figure for its rescheduled portfolio, rather than a breakdown of the aging schedule, the study considers 50 percent of the total rescheduled portfolio as part of the portfolio past due for this indicator[11] range.

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[11] If it is observed that the institution is rescheduling loans but is unable to obtain details on the amount of rescheduled portfolio, one point should be taken off the final Portfolio at Risk rating.

5.3.1 Assessing portfolio quality & portfolio at risk (quantitative)

In MC, OTR and DR are considered as such ratio which are necessary for measuring the quality of asset. The ratios are effective here as these measure the outstanding amount which are to be realised. The quantitative indicator delinquency rate measures the rate of contaminated part of outstanding. The loan loss provision rate denotes the provision required to protect to protect the capital in terms of the actual provision maintained. The scale and weightings of these four indicators are assigned here as suggested by the stake holders. To assess portfolio quality and portfolio at rask of and MFI the OTR, ODR, Delinquency rate and the loan loss provision (LLP) are analysed. The average mean 30 demonstrated an the mean of 3 top rated Pos of PKSF are 97.81%, 94.87%, 7.09% and 6.42%. The proposed CAMEL standard for OTR, ODR, DR 7 LLP are 97%, 95% 57% and 4% respectively by which the range for the said indicators are developed for the 0-5 scale to obtain a GPA by using the assigned weight.

Table : 5.6 Proposed CAMEL range for OTR, ODR, DR & LLP

Scale	OTR	ODR	Delinquency Rate (DR)	Loan Loss Provision (LLP)
5	Above 99%	Above 98%	Less 3%	Above 8
4	99% – 98%	96% – 98%	3% – 4%	6 – 8
3	98% – 97%	94% – 96%	4% –5%	4 – 6
2	97% – 95%	92% – 94%	5% –6%	2– 4
1	95% – 93%	90% – 92%	6% – 7Y	0. –2%
0	Below 93%	Below 90%	Above 7	0%

5.3.2 Portfolio Classification System (Qualitative)

The analytical work in this area requires reviewing the portfolio's maturing schedule and assessing the institution's policies associated with preparing that schedule and any additional risk classification. Many POs are reluctant to prepare an aging schedule of their portfolio, preferring instead to monitor the late payment rate (total payments past due/total portfolio), which understates the genuine risk of a late payment. Often, the institution is motivated by a desire to present optimistic results to donor agencies. An aging schedule is prepared to estimate the potential losses associated with the loans that are past due.

Financial institutions, however, rate the quality of their portfolios not only on the basis of the level of late payment but also take into account other factors such as the collectibility of guarantees, client history, loan type, and client type. For example, in a typical financial institution, a client who is proper in making repayment his or her present loan, but was defaulter of the previous loan, would be classified by the institution as riskier than one who has never been a defaulter in the past. In other words, in addition to classifying clients by their current repayment status, they should be classified by other potential risk they possess in terms of their credit history, existence and quality of guarantees, and so forth. Commercial financial institutions usually classify the potential risk of their borrowers as A, B, C, or D. For a Micro Finance Institution (MFI), the risk classification system could be based on observed patterns of loan repayment with regard to specific lines of business (commerce vs. production) or geographic location (rural vs. urban portfolio or specific branches. These classifications could be used not only to establish provisioning rates but also to set differential risk-based interest rates.

However, most POs do not use a risk classification system, and there are no firm outlines for having one. Big POs in Bangladesh use different criteria though there is a specific set of guidelines for the PKSF POs.

As the micro finance industry continues to develop and become more complex, the need for POs to incorporate risk classification systems will become more vital. This analysis incorporates the rating method developed by the institution for classifying its portfolio and the effectiveness of estimating losses by comparing real losses to past estimates. In this regard, emphasis will be given in the rating on the institution's development of new methods for estimating risk on the basis of their own experience rather than on a predetermined format. This is because an institution's development of databases for doing such classification is a key factor in getting the range for evaluating performance indicator.

Table: 5.7 Assessing Portfolio Classification System

Scale	Proposed CAMEL Range
5	The institution has a formal portfolio classification system in terms of level of risk and of aging, which is based on a historical analysis of the specific portfolio classification. Provisions reflect the portfolio classification system that is broken down by risk.
4	The institution has a formal portfolio classification system in terms of level of risk, but based more on intuition than on a historical analysis. The system includes provisions that are not differentiated by risk but instead are based on an analysis of actual late payment rates.
3	The institution has a formal classification system based primarily on the aging of the portfolio.
2	The institution does not have a formal portfolio classification system. However, it has the intention and the available database of information to develop one.
1	The institution does not have a formal portfolio classification system and it lacks the information systems and/or verifiable historical data to create one.
0	The institution does not have a formal portfolio classification system and has neither the information nor the intention of creating one.

POs also manage assets other than their loan portfolios. The other current assets (such as cash and temporary investments) are analysed under the liquidity area of the proposed CAMEL. Long-term assets, such as fixed assets and long-term investments, also contribute to the institution's financial performance.

5.3.3 Productivity of Long-term Assets (Qualitative)

For this indicator, the analyst evaluates the policies for investing in fixed assets. In addition, there should be an analysis of the appropriateness of the decisions for investment with respect to productivity and morale of the staff, customer satisfaction and present and future financial impact of the decisions on the institution. Following aspects are to be considered when fixed assets and long-term investments are to be evaluated:

Cost savings—for example, renting a building vs. buying one.

Inflation adjustments—is the purpose of the investment as a hedge against inflation (see Adjusting for the Effects of Inflation)?

Guarantees—are the fixed assets serving the purpose of backing credit lines for the institution?

- Risk—is there a need to provision for long-term assets or donated goods?
- Actual administration of these assets—are they underutilized?
- Donations for fixed assets—are donations that are specifically tied to the purchase of fixed assets being used appropriately, and did the institution do adequate research before making the purchase?
- Cost benefit analysis—does the institution studies the cost/benefit of investing in fixed assets over increasing the loan portfolio, including financing costs?
- Future growth of infrastructure—is the institution planning appropriately for its future growth needs?

The supporting indicator of total fixed assets/total assets quantifies the institution's level of fixed asset investment in relation to total assets. The typical range for POs is 5-10 percent. A high ratio would warrant further investigation as the institution may be investing too heavily in fixed assets, diverting valuable resources from the POs main business, lending. However, a new institution may not yet have built up its portfolio in relation to its level of fixed assets.

Table: 5.8 Assessing Productivity of long-term Assets

Scale	Proposed CAMEL Range
5	The institution optimises the utilisation of its long-term assets as a result of a thorough cost/benefit analysis
4	The institution manages its long-term assets without a thorough analysis of their impact on the entity. Nevertheless, at this time, this lack of analytical rigor does not pose a risk to the institution.
3	The institution faces possible risks in the future by not analysing appropriately the consequences of the management of its long-term assets.
2-0	The financial results of the institution are negatively affected by the institution's lack of planning and assessment of its long-term assets.

5.3.4 Infrastructure (Qualitative)

The infrastructure of the institution should be evaluated to determine whether it is adequate to meet the needs of both staff and clients. In many cases, especially for NGOs, the infrastructure is inadequate and lacks basic elements to ensure optimal productivity.

Table: 5.9 Assessing Infrastructure

Scale	Stakeholders Suggested Range
5	The institution has an infrastructure that guarantees maximum productivity. This includes its physical space and vehicles to transport loan officers. The office space is comfortable for the clients, well located for them, and secure.
4	The institution has an infrastructure that may not guarantee maximum productivity, but is adequate in almost all respects.
3	The institution has an infrastructure that is basically adequate, but with problems that may impede productivity.
2-0	The institution does not have an adequate infrastructure, productivity is affected, and the clients receive poor service as a result of these inadequacies.

5.4.0 Management Scoring.

Table: 5.10 Management Scoring

Quantitative Indicators	Wtg. (%)	Qualitative Indicators	Wtg. (%)
Management (23%):			
Cost structure Analysis :			
Income/Average Performing Asset	3	Governance	4
Finance Cost/ Average Performing Asset	2	Human Resources	2
Operational Cost/ Average Performing Asset	3	Process, Controls and Audit	3
LLP. Cost/ Average Performing Asset	2	Information Technology System	2
		Strategic Planning and Budgeting	2
Total	10%		13%

This part of analysis consists of two parts, To analyse the quantitative part of management of a PO, the study consider to analyse the cost structure of a PO which consists of the income, financial cost, operational cost and the loan loss provision in terms of the average performing asset. As in MC, average performing asset which consists of the total asset other then the fixed asset.

In the initial stages of the micro finance operation, the lending procedures mains at formative phase, and the culture of austerity that characterised the majority of NGOs is an asset and, which, in fact, is a key to demonstrating the financial viability. However, only those MFIs, which have recognised the need to compete for highly capable personnel and formalise management processes, have been successful in growing without suffering internal crises.

Moreover, it is clear that long-lasting success can only be achieved by those institutions that have strong governance and strong management.

As the Micro finance sector faces increasing competition, requiring a more proactive approach on the part of the board and senior management, their vision and leadership are key to the success of the institution in the long term.

To assess the quantitative part of management of an MFI, the cost structures are also needed to be analysed. The average mean of the mean of the 30 demonstrated POs and the mean of the 3 top rated POs of PKSF for the income/average performing asset, financial cost/Average performing asset, operational cost/ Average performing Asset and LLp/ Average Performing Asset ratio are 30%, 5%, 20% and 2% respectively to obtain a GPA within the scale of 0-5 by using the assigned weight.

Cost structure analysis (Quantitative) :

Table: 5.11 Assessing CAMEL standards for Cost Structure

Scale	Proposed CAMEL range for income/Average Performing Asset	Proposed CAMEL range for Financial Cost/Average Performing Asset	Proposed CAMEL range for Operational Cost/Average Performing Asset	Proposed CAMEL range for LLP/Average Performing Asset
5	Over 35%	Less then 4%	Less than 16%	Above 2.5%
4	30% - 35%	4% - 5%	16% - 18%	2.5% - 2%
3	25% - 30%	5% - 6%	18% - 20%	2% - 1.5%
2	25% - 20%	6% - 7%	20% - 22%	1.5% 1.00%
1	20% - 10%	7% - 8%	22% - 24%	1.00% - 0.5%
0	Less than 10%	Over 8%	Over 24%	Less than 0.5%

5.4.1 Governance/Management (Qualitative)

Under this category, the analysis focuses on the governance of the institution by the board of directors and the management of the institution by its senior management team. The analysis does not differentiate between an NGO board and that of a formal financial institution, which includes individuals or institutions that have invested their own monies and therefore have a financial stake in the PO. The analyst should examine the approach of the board members in exercising their responsibility to govern the institution. In this regard, following aspects should be taken into account.[12]

[12] This information is obtained by reviewing board meeting minutes and board member CV's, and by discussing these issues with senior management.

The *diversity* of the technical expertise on the board including professionals in the areas of finance, law, and marketing, and the *ability and professional experience* of the board members in their respective areas.

- The *independence* of the board vis-a-vis the management of the institution.
- The *frequency* of board meetings (monthly is optimal given the volatility that exists in the micro finance sector and the significant changes taking place in the sector, that is, competition) and the *participation* of board members on a regular basis.
- The *nature of the issues* reviewed and voted upon by the board including portfolio quality, budget, fixed asset acquisitions over certain amounts, and new initiatives.
- The *quality of the information* received by the board from the staff; that is, the degree to which the information is relevant, thorough, and up-to-date. Also, the quality of information received by the board from third parties such as accountants and consultants.
- The *quality of board minutes, which* should include resolutions taken by the board and the actions that the board is recommending to management so as to ensure transparency of operations within the board as well as clarity of communication between the board and management.
- The *structure* of the board and the existence of *term limit*; that is, the extent to which the structure of the board (for example, usage of committees) enhances its effectiveness and efficiency and whether clear policies exist for rotating members off the board. Although management performance is reflected in all aspects of the Organisation, this indicator focuses specifically on the management team. The requisite qualifications for the responsibilities assumed the commitment to their work, and the authority to for making flexible and effective decisions on the basis of the technical criteria. Management styles may differ from one institution to another, but there are elements that are common to all successful Micro Finance Institution (MFI)s. First, open channels of communication should exist within the institution among all levels of the Organisation, including communication with the client. Second, management should be aware of the major risks the institution is facing and also of the level of risk the latter can cope with (that is, in the loan underwriting process). POs might not have formal risk assessment reports, but a strong and pervasive internal control environment should exist. This can be observed, for example, by examining the management's response to the issues raised by internal and external auditors or the degree of care taken when implementing new products, technology, procedures, and so forth.

Table: 5.12 Assessing Governance/Management

Scale	Stakeholders Suggested Range
5	The institution has a strong board with excellent and varied technical expertise and experience relevant to Micro finance. The board is active and independent of management. The board receives excellent quality information from staff and third parties and has clear decision-making authority over the institution's strategic and key operating decisions. The board makes decisions on a timely basis and disagreements on issues do not impair its cohesiveness. The management team possesses the necessary skills to carry out its responsibilities, is committed to the Organisation, and is characterized by cohesiveness and clear objectives that are communicated throughout the institution. Communication flows openly at all levels of the Organisation. Lower level staff is strongly supported by management. Decisions are taken on a timely basis and are based on technical criteria. A strong and pervasive internal control environment exists within the Organisation.
4	The institution's board functions well, providing adequate governance to the institution. The management team is guided by specific objectives that are clear to those who report to it. Communication tends to be open and flow freely within the Organisation. Important decisions are taken on a timely basis and grounded in technical criteria. The internal control environment is adequate.
3	The institution's board exhibits some deficiencies in the areas outlined above, resulting in somewhat passive or not very effective governance. The management team lacks clear objectives and is unable to communicate its role to the rest of the institution. The institution exhibits deficiencies in the areas of decision making, communications, and controls.
2	The board and management team has significant deficiencies. There is a poor flow of communication and limited support provided by the management team. Decisions are routinely postponed and are taken based more on intuition than on technical criteria. A clear separation exists between management and the rest of the staff. The internal control environment is poor.
1 and 0	The institution has either a non-functioning board or one that rarely meets. Deficiencies associated with management have led the institution to a crisis in terms of staff morale. An open conflict exists between management and the rest of the institution's personnel. Key decisions have either been poorly made, or not made at all. There is no commitment on the part of management to internal controls.

5.4.2 Human Resources (Qualitative[13])

The management of human resources of an institution is performed by each and every individual having supervisory responsibility. In this regard, one of the most important functions of the Department of Human Resources (or comparable division) is to provide guidance and support to the operations staff in performing their supervisory responsibilities. This guidance should be clearly defined and directly related to the Organisational objectives of the institution. It is also extremely important to evaluate the institution's incentive system for personnel as a well designed system of rewarding personnel for their performance ensures the proper implementation of credit policies and procedures which in the long run brings uniformity and confirms compliance.

Table: 5.13 Assessing Human Resources Policy

Scale	Stakeholders Suggested Range
5	The institution's human resources unit is guided by a clear mission, which coincides with that of the Organisation as a whole, and by a strategy and objectives that have been documented and disseminated within the Organisation. The unit has the necessary resources (budget, personnel, technology) to pursue its objectives. Recruiting sources have been clearly identified and are sufficient to respond to the projected growth of the institution. The procedures for selecting personnel are effective, efficient, and have been documented. Training is diversified and responds to the needs of personnel at various levels of the Organisation and has a proven impact. The orientation program is efficient and effective and has been documented. Job descriptions outlining responsibilities for each position are in place, have been documented, updated, and disseminated, and correspond to the actual responsibilities assumed. Personnel policies have been established, documented, and disseminated. A performance evaluation system has been established that is efficient and effective; this has been documented and disseminated to personnel and is currently operative. The institution monitors absenteeism, tardiness, staff rotation, and the working environment in general. Causes for personnel problems are identified and taken into account for decision- making purposes. The employees' benefits package is considered an important asset by personnel. A clear salary scale has been established based on market salaries, is operative, and has been documented. The incentive system is well aligned with the institution's targets and its policies and procedures.

[13] A quantitative measure—personnel retention rate, which is personnel at end of period/personnel at beginning of period (12 months prior to end of period) plus new personnel hired between beginning and end periods—is a supporting indicator for this part of the analysis.

Scale	Stakeholders Suggested Range
4	The institution has a Human Resources unit guided by a mission, strategies, and objectives that have been disseminated and documented and are in accord with those of the Organisation as a whole. The unit has the necessary resources to carry out its basic activities. It has identified recruiting sources, and has an effective selection process and diversified training programs that respond to the different personnel needs including an effective entry-training program. (All training materials have been documented). Job descriptions are updated, documented, and known to personnel. Established personnel policies and procedures are in place and known to personnel. A job performance evaluation system is operative and known to personnel. The institution monitors absenteeism, client retention, tardiness, and morale. It has an adequate benefits package, and a salary system is in place. The incentive system supports the institution's targets and its policies and procedures.
3	The institution exhibits some deficiencies in the management of the area of human resources. The procedures and mechanisms described above do exist but are somewhat deficient.
2	The institution exhibits weaknesses in the management of human resources; the mechanisms and basic processes described above do not exist. The human resources function is not part of a coherent whole and is carried out within a framework that is erratic.
1	The institution has significant deficiencies in human resources management. These translate into serious problems such as a low personnel retention rate.
0	The institution exhibits no interest in the area of human resources management. Even basic processes have not been established.

5.4.3 Processes, Controls, and Audit (Qualitative)

To achieve a certain magnitude of operations, a PO needs to formalise policies and procedures so that this activity can be carried out on the basis of certain level of decentralisation required for the micro-credit industry. Decentralization and standardisation of clear and coherent policies and procedures is key to controlling the costs of lending to many tiny businesses and to ensure a good quality portfolio. This indicator focuses on the degree to which the institution has *formalised key processes* as well as the effectiveness with which the institution is controlling risk throughout the Organisation, as measured by the institution's *control environment*, and the quality of its *internal* and *external audit*.

Formalisation of processes

Under this category, the analyst needs to determine the extent to which the institution has policies and procedures manuals for key functional divisions such as credit, administration, and information systems. The regularity with which these manuals are updated and communicated to staff is an integral component of their effectiveness. The analyst, however, also needs to ascertain whether the institution is monitoring the application of the policies and procedures outlined in the manuals. The existence of

specialised audits and their effectiveness in carrying out the monitoring function also needs to be analysed. A methodological audit, for example, is a key specialised audit function. The poor application of credit methodology is one of the primary factors that negatively affect the quality of the loan portfolio. For example, an institution may feel pressured to reach break-even or enhance profitability by overburdening clients with increased loan amounts that are beyond their ability to repay, thereby increasing portfolio delinquency. A thorough methodological audit will include a review of credit files and client visits to determine if the credit methodology is applied as stated in the institution's credit manual.

Internal Controls

An assessment of *internal controls* encompasses an examination of the institution's accounting system and its control policies and procedures. The accounting system comprises the methods and records established to identify, assemble, analyse, classify record, maintain, and report the institution's transactions and related assets and liabilities. Control over the accounting system guard against the risk that engenders from inaccuracy (such as wrongly posted interest rates and depreciation lives), errors in population completeness (such as not capturing all loans that should be recorded on the system), and fraudulent transactions in the financial statements.

Accounting system controls are numerous and include reconciliation procedures (for example, of sub-ledger and sub-expense accounts with the general ledger), analytical techniques (for example, the calculation and analysis of interest rate yields as verification of the accuracy of software applications and comparisons of budgeted data to actual), and the re-verification of data input into the system for accuracy (for example, the comparison of new loan setup for accuracy of recorded interest rate, loan term, repayment terms, name, and so on). Control procedures are those policies and procedures that management has established over the years to provide reasonable assurance that the institution's transactions are legal, complete, and recorded accurately and those assets are adequately safeguarded from loss. These policies and procedures fall into four general categories:

- **Performance review** is related to different sets of data—operating or financial—to one another such as comparisons of actual to budgeted performance.
- **Information processing** designed to check the accuracy, completeness, and proper authorisation of transactions. Two types of information processing policies and procedures exist:
  - General controls over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance that apply to the mainframe, minicomputer, and end-user environments.
  - Application controls that govern the processing of individual applications. These might include reporting, reviewing, and approving reconciliation, and checking the arithmetical accuracy of the records.
- **Physical controls** that protect the institution's assets and records from inappropriate access and loss. For example, the analyst needs to understand the system of loan repayment because, for example, if clients repay at the PO's branches then the analyst needs to evaluate whether the appropriate security measures have been taken by the PO to minimise the risk of loss of cash.
- **Segregation of duties** that assign different people the responsibilities of authorising, recording, and maintaining custody of assets to minimise the possibility that one individual can perpetrate and conceal errors or irregularities in the normal course of their duties.

Internal Audit

A review of internal audit should include a review of the *competence* and *objectivity* of the internal auditors, and whether they have the necessary *resources* to carry out their functions. Assessing the *competence* of the internal auditor and the *resources* available to this function should take several factors into consideration.

- Level of education and professional experience of the internal auditors.
- Quality of the internal audit strategic plan including the evaluation of internal control risk, and the nature, extent and timing of related audit work.
- Extent to which the internal audit strategic plan addresses the risks identified by management, either formally (in a risk assessment report) or informally.
- Quality of audit programs and procedures to carry out the internal audit strategic plan.
- Quality of work performed.

- Quality of working-paper documentation, reports, and recommendations.
- Extent to which issues raised by external sources (consultants, auditors, and others) have been identified by the internal auditors.
- Quality of the **established issue resolution procedures**. A formal process for management's resolution of control weaknesses identified by internal audit should exist with management's resolution monitored by internal audit.

In assessing the *objectivity* of the internal auditors, the evaluator should take into consideration the organisational status of the internal auditors to examine whether-

- the internal auditor reports directly to the board of directors or an audit committee that provides guidance on audit scope and support on internal audit findings and recommendations;
- the internal auditor has unlimited and direct access to all areas of the financial institution for purposes of assessing the existence and effectiveness of internal controls;
- the board of directors and/or the audit committee has responsibility for employment decisions related to the internal auditors;

External Audit

An external audit of a MFI should include several factors:

- Adherence by the auditors either to national auditing standards or to International Standards of Auditing and identification by the auditors of the accounting methods used by the Micro Finance Institution (MFI).
- A Management Letter with constructive comments to management regarding areas for improvement in the operations and internal controls of the institution.
- Statistical sampling methods to ensure that a representative sample is tested. Branch visits for testing loan portfolio and client visits for testing the loan origination process and for loan confirmation are key to a meaningful audit.
- In selecting an audit firm, its independence from those who control the institution under audit is essential. An audit firm that has experience in the micro finance field is also an important element in the selection process. As a check of the various control mechanisms evaluated, the analyst needs to determine whether the institution has suffered from fraud and, if so, the magnitude and frequency of these occurrences as well as the manner in which the institution responded to them.

Table: 5.14 Assessing Processes, Controls, and Audit

Scale	Stakeholders Suggested Range
5	The institution's key policies and processes are documented and updated as needed. They have been communicated to personnel who use them in their day-to-day activities. The incentive system is well aligned with the institution's targets and its policies and procedures. The institution's accounting system has optimal controls and its control policies and procedures are comprehensive and effective, as measured by the rarity of instances of fraud, financial misstatements, and damage to or theft of the institution's assets. The internal audit function is both competent and independent. External auditors are independent, abide by established standards, and produce constructive Management Letters.
4	The institution's key policies and procedures are documented, updated, and used by personnel. The incentive system supports the institution's targets and its policies and procedures. The institution's accounting system has good controls and its control policies and procedures are adequate. Fraud, financial misstatements, and damage to or theft of assets has been minimal. The internal and external audit functions are adequate.
3	Most of the institution's key policies and procedures are documented in manuals and have been updated. Personnel are, for the most part, aware of these manuals and use them in their day-to-day operations. The incentive system has some deficiencies, as do the institutions accounting system and control policies and procedures. The institution has had to deal with a few incidences of fraud, misstatements, and damage to or theft of assets. The internal and external audit functions exhibit some deficiencies.
2	The institution has policies and procedures by which it operates in the key areas, but these have not been documented. Personnel have varying interpretations of these policies and procedures. The incentive system has serious deficiencies. The institution's accounting system and control policies and procedures have deficiencies. The institution has dealt with numerous incidences of fraud, misstatements, and damage to or theft of assets. The internal audit function is non-functional and external auditors are inadequate.
1-0	There is no uniformity in the application of policies and processes within the institution. The incentive system is perverse. No internal audit function exists. Important deficiencies exist with the external audit. Weak controls have resulted in serious incidences of fraud.

5.4.4 Information Technology System (Qualitative)

A strong information technology system is essential to optimise the efficiency of the management. For POs, the information system falls into two basic categories: accounting and loan tracking. This area of analysis focuses on the extent to which computerised information systems are operating effectively and efficiently, and, ultimately, generating reports for management purposes in a timely and accurate manner. Deficient reports on loan delinquency, for example, will significantly impact the institution's ability to monitor and follow-up on these loans, resulting in deterioration in asset quality. To analyse the extent to which computerised information systems are operating effectively and efficiently, two areas should be reviewed:

- The information technology environment; and.
- The extent and quality of the specific internal control areas within computerised information systems.
- This analysis should be conducted through a review of existing internal documentation, interviews with key technology users, and observation of daily control procedures of the major computer functions (such as loan, accounting/finance, and, if appropriate, deposit systems).

Information Technology Environment

The information technology (IT) environment involves understanding the level of utilising the computer technology for making the operation of the institution smooth. It will also include the review of the Organisational structure of the computer staff, and the computer hardware configuration utilised including the extent to which on-line terminals and networks are used. The two primary uses of IT in an institution are in finance (the general ledger) and in lending (the loan portfolio tracking system.) The extent to which these processes are automated may vary. For example, the loan system may or may not be directly interfaced to the general ledger. Furthermore, there is a wide spectrum of automation options in the lending cycle, ranging from automation of the loan documentation process (for example, the use of standardised forms on a word processing system) to a loan application package that allows for the direct interface of a computerised application package to a loan documentation (loan note and disbursement) system and to the lending sub ledger.

The greater the number of direct interfaces, the fewer times the same information (loan name, location, rate, amount, payment structure) is input into the system and the greater the opportunity for efficient transmittal of data between central and branch locations. Perhaps most importantly, at least one individual within each operating department should have a strong understanding of the computer system capabilities and have the ability to make "inquiries" to extract data in specialised report formats. Organisationally, the information technology staff should report to a fairly senior member of the institution's management team so that information needs and problems can be addressed quickly and that information technology development can be closely monitored. The analyst should have an understanding of the extent to which branch locations are linked to a central computer, how the link is accomplished (for example, via satellite), and whether the link is on-line and real-time (that is, transactions

are recorded at the branch immediately). The analyst must also determine the extent to which the link updates the applicable software application (loans, general ledger), batches the information (that is, entries are accumulated at the branch site by the computer system and submitted to the central location for processing at predetermined times daily), and memo-posts it (entries are noted on the sub-ledger system but not actually posted until later). The use of networks (such as WANs, or wide-area networks), which not only link a given branch with the central office but also link branches to other branches, should also be understood. With this knowledge, the analyst can assess the extent to which the information technology system meets the needs of the institution in an efficient and cost-effective manner, given the constraints of the local environment and communications system.

Specific Information Technology Controls

After a review of the institution's general control environment, four internal control areas should be evaluated.

- **Change in Management.** This area encompasses the degree to which the information technology systems can swiftly and flexibly adapt to changing user needs. It includes controls to ensure that changes or upgrades to the computer systems are appropriately authorised, designed, developed, tested, and implemented.
- **Computer Operations.** This aspect seeks to ensure that daily computer operations are appropriately managed. It also encompasses the existence, adequacy, and preparedness of a disaster recovery plan that is periodically tested for viability and is well understood by potential users.
- **Physical Security.** Security controls ensure that access to the computer, production data, and software is appropriately administered and restricted, and can be reviewed and monitored over time.
- **Application Controls.** Computer programs, user procedures, and user manuals should provide an appropriate means of controlling:
  - Completeness—all transactions (and only those transactions) that should be input into or updated on the appropriate subsystem or system have been;
  - Accuracy—all transaction data are input and updated accurately;
  - Validity and authorisation—all transactions are valid and have been appropriately authorised; and
  - Maintenance—all transactions, once updated to the appropriate system and/or subsystem, remain correct and current, unless modified during normal, authorised transaction processing.

The ultimate test of these controls lies in the fact that how far the reports generated for management purposes are comprehensive, clear, timely, and accurate and the ease with which the system can adjust to changing needs of the Organisation. The basic reports that Micro Finance Institutions (MFIs) should produce to manage effectively are as follows (minimum periodicity indicated in parentheses, if applicable).

- Balance Sheet and Income Statement, adjusted to reflect CAMEL-type adjustments and non-adjusted, including calculation of key performance indicators (monthly);
- Actual to Budget Comparison (monthly);
- Projected Cash Flow (weekly);
- Aging of Portfolio, broken down by loan officer and branch office (weekly);
- Daily Payments Report, broken down by loan officer (daily);
- Listing of Active Clients, broken down by loan officer. Includes the customer name, amount disbursed, amount and date of next payment, and amount in arrears (weekly);
- Operations Report, indicating loan activity (number and total amount of businesses receiving first loans, number and total amount of businesses receiving follow-up loans), and savings and training activity, if applicable; and
- Staff Incentive Report.

Table: 5.15 Assessing Information Technology Systems

Scale	Stakeholders Suggested Range
5	The institution has computerised information systems that generate the reports required to run the institution on a day-to-day basis and to undertake strategic planning. The information generated is both accurate and timely. The system is efficient (within the constraints of the local environment) and cost-effective. Information technology issues are addressed on a timely basis. Operating departments have the ability to extract the required information from the system. Controls, including a disaster recovery plan and physical security for hardware and software, are optimal. The system has the flexibility to respond to new information needs and is capable of meeting the needs of a growing Organisation.
4	Information systems generate all key reports in a precise and timely manner. Systems are efficient and cost-effective. Controls are in place including a disaster recovery plan, and physical security for hardware and software is adequate. The system has the flexibility to respond to new information needs, but additional investment in hardware or software is required to meet projected needs of the institution.
3	Information systems generate the key reports but these are not always accurate and/or timely. For the most part, systems are efficient, cost-effective, and flexible. Physical security is barely adequate as is the institution's disaster recovery plan.
2	Information systems are capable of generating some of the key reports, but neither on a timely nor an accurate basis. Incidents of a breach of physical security to the hardware or software system have taken place, as has information loss.
1-0	Information systems are not capable of generating the key reports needed. The institution has dealt with serious damage to the hardware and/or software systems because of poor physical security. Information recovery has also been a problem.

5.4.5 Strategic Planning and Budgeting (Qualitative)

An adequate strategic planning and budgeting system allows an institution to achieve its financial goals with minimum pitfalls. Generating comprehensive and precise information for short- (one year) and long- (3-5 years) term purposes is essential to the effective management of the institution. Moreover, the growing competition in many micro finance markets requires that management be more aggressive and proactive. Thus, strategic planning becomes extremely important in ensuring the viability of the institution in the future. A strategic planning process starts with the goals and objectives the institution has set for itself—independent of the current obstacles it might face—because the process involves identifying strategies for overcoming these obstacles. Strategic planning requires the participation of all key members of the management team so that the institution can capture the breadth of inputs required for a meaningful and well-grounded plan. The basic elements in a strategic plan are as follows:

- Identifying the elements that differentiate the institution from others of its kind and are responsible for its success. This involves analysing pricing, products, and service.

Defining the institutional objectives.

- Analysing the environment in which it operates, both at the macro level (the economy and the political situation) and the micro level (its competition and the market segments that the institution reaches or desires to reach; the size and location of the institution's and its competitors' markets).

- Identifying the risks and obstacles faced by the institution in reaching these objectives.

- Formulating the strategies that allow the institution to manage risk and overcome obstacles to meet the desired goals.

- Analysing the implications of these strategies in terms of the resources needed (financial, infrastructure, and human resources).

- Translating objectives, strategies, and resources into quantitative terms and, in doing so, checking for internal inconsistencies (such as client growth that does not match the number of loan officers required to service the projected loan volume).

The strategic plan should provide permanent guidelines for taking management decision. Its relevance, however, will only be maintained over time if the plan is updated when key assumptions have changed. Although the CAMEL does not penalise institutions that are not increasing the number of clients they service, the analyst should assess whether the assumptions for growth in number of clients serviced by the institution versus those serviced by its competition result in a reduction in the institution's market share. A reduction in market share leaves the institution vulnerable, with potentially negative financial effects. On the other hand, the analyst should also be cautious of the exaggerated projected growth. Such exaggeration in predicting growth results from the introduction of new products on a massive scale without doing adequate pilot test. The annual budget also flows from the strategic planning. It serves to guide the institution in its decision-making. On a monthly basis, the institution's actual results should be measured against the budgeted numbers. The extent to which the institution is successful in meeting its budget reflects on the quality of management. When the actual results do not match the budget, the institution should re-assess expected results and analysing the reasons for the deficiencies in meeting budgeted numbers

Table: 5.16 Assessing Strategic Planning and Budgeting

Scale	Stakeholders Suggested Range
5	The institution undertakes a comprehensive and participatory process for generating short- and long-term financial projections, grounded on technical criteria. The strategic plan incorporates an analysis of institutional franchise, goals, obstacles, and strategies, and is based on assumptions that are reasonable and internally coherent and that translate into an increase or maintenance of market share for the institution. The plan is updated as needed and used in the decision-making process. A monthly review of the budget is undertaken by staff and the Board. The budget is a key tool in the decision-making process. The PO is successful to a large extent in meeting the projected annual budget.
4	The institution undertakes both short- and long-term projections. The strategic plan has some minor deficiencies. Both the plan and budget serve as a guide in the decision-making process. The institution is aware of its positioning with respect to current and future market share.
3	The institution has undertaken some projections, but more as an exercise than as a process for generating information that becomes key to the decision-making process of the institution.
2	In the past, the institution has generated projections, but these have not been updated and, therefore, are not used in the decision-making process.
1	1 Some aspects of the institution's activities have been projected, primarily in response to donors, but no overall exercise has been undertaken.
0	The institution has no strategic planning process or, if it does, it is entirely for the purposes of obtaining donations.

5.5.0 Earnings Scoring

This part of CAMEL scoring consists of the analysis of five quantitative and one qualitative indicator. The quantitative indicators include the profitability analysis for which net margin is a concern and followed by Operational self Sufficiency (OSS), Returns of equity (ROE) and Return of Asset (ROA). The qualitative indicator includes the interest rate policy which is a key determinant for profitability of the MFI and to keep the capital intact.

Table: 5.17 Earnings scoring.

Quantitative Indicators	Wtg. (%)	Qualitative Indicators	Wtg. (%)
Earnings (24%):			
Profitability Analysis :			
Operational income		Interest Rate Policy	4
(-) Finance Cost			
Gross income			
(-) Operational Cost			
Gross Operational Margin			
(-) Loan Loss provision & Imputed cost			
Net Operational Margin	6		
Operational Self Sufficiency (OSS) ratio	4		
Return On Equity (ROE)	5		
Return On Asset (ROA)	5		
Total	20%		4%

A basic prerequisite for any PO interested in becoming a financial intermediary is to operate profitably. Unless becoming a profitable one, the institution will not be able to attract financier or depositors. As in the area of asset quality, the profitability of the institution is measured essentially quantitatively. Profitability is the result of the effective management of pricing, costs, financing, asset quality, liquidity, marketing, human resources, and the like.

For the purposes of the proposed CAMEL rating, three quantitative indicators that represent the challenges and objectives of Micro Finance Institutions (MFIs) are required to be chosen to measure profitability. These are (1) to maintain and subsequently increase net worth (return on equity); (2) to operate with a cost structure that, while more onerous than that of other financial institutions, continues to move closer to the efficiency levels achieved by the traditional financial sector (operating efficiency); and (3) to maintain and increase the institution's return on its asset base (return on assets).

Another important issue related to earnings is the institutional policy on maintaining the real value of equity. Although measurable in the rate of return on equity, the analyst must also assess the institution's attitudes

and explicit policies in this area. Earnings indicators used for the ratings are adjusted for loan-loss provision, inflation, accrued interest, and explicit and implicit subsidies (see Adjusting the Loan Loss Provision, Adjusting for the Effects of Inflation, Adjusting for Accrued Interest Income, Adjusting for Explicit and Implicit Subsidies). In addition, there are numerous supporting indicators that can be used when analysing earnings (Annex-VIII).

5.5.1 Profitability analysis (Quantitative) :

Profitability analysis is concerned with the structure of the MCP of a PO. This analysis includes the analysis of the components of cost structure. This analysis starts with the gross income which is derived from the operational income after deducting the financial cost and followed by the net operational margin after deducting the operational cost loan loss provisional cost and the imputed cost. This part of the analysis is the key area of the profitability analysis by which a PO can be measured whether it is capable of increasing its capital or not.

Table: 5.18 Proposed CAMEL standard for NOM, OSS, ROE & ROA

Scale	Proposed CAMEL standard for NOM	Proposed CAMEL standard for OSS	Proposed CAMEL standard for ROE	Proposed CAMEL standard for ROA
5	Above 5%	Above 300%	Above 16%	Above 5%
4	5% - 4.5%	275% - 300%	14% - 16%	4.5% - 5%
3	4.5% - 4%	205% - 275%	12% - 14%	4% - 4.5%
2	4% - 2.5%	150% - 250%	6% - 12%	3% - 4%
1	2.5% - 0%	0% - 150%	3% - 6%	2% - 3%
0	Less than 0%	Less than 0%	Less than 3%	Less than 2%

To assess the earning part of CAMEL for an MFI the profitability of that MFI is analysed. The average mean of the 30 demonstrated POs and the mean of 3 top rated POs of PKSF for the NOM, OSS, ROE & ROA are 5.06%, 291.60%, 13.64% & 3.9% respectively. The proposed CAMEL standard for the above indicators are 4%, 250%, 12% and 4% respectively by which the range are developed for the scale of 0-5 to obtain a GPA by using the assigned weights. The range and the weights are determined here as per suggestions of stake holder.

5.5.2 Adjusted Return on Equity (Quantitative)

Adjusted return on equity (ROE) is calculated by dividing the adjusted net income of the micro finance activity by the average adjusted equity. This ratio measures the institution's ability to increase its equity base through earnings from operations adjusted for the effects of inflation, appropriate levels of loan loss provisions, accrued interest income, and explicit and implicit subsidies. The result will be a function of the financial margin and the level of operating efficiency, asset utilisation, and leverage or debt financing, in relation to equity. A return of 0 percent implies that the institution does not generate a return on equity beyond the inflation rate. (See Table: 5.18)

5.5.3 Operational Efficiency (Quantitative)

A key area of analysis in the proposed CAMEL is operational efficiency, especially for those institutions, which confront stiff competition in the market. Operational efficiency is measured in terms of the percentage of total operating expenses to the average loan portfolio. More than profitability, this indicator measures the efficiency of the institution and allows for monitoring its progress toward the goal of functioning within margins that are closer to those of formal financial institutions.

Undoubtedly, making numerous small loans will always be more expensive than traditional commercial bank lending. However, those institutions that try to operate within the financial intermediary framework where financial margins are relatively inflexible will have to look for a way to maximise the efficiency of their staff and processes. Some POs have lacked the competitive pressure to do so, while others simply have not achieved the economies of scale that will allow them maximum efficiency. (See Table: 5.18)

5.5.4 Adjusted Return on Assets (Quantitative)

This indicator calculates the adjusted net income of the micro finance activity to average assets. It measures how well the institution's assets are utilised, or its ability to generate earnings with a given asset base. Unlike the adjusted return on equity, this indicator is independent of the level of leverage, or debt financing, employed by the institution. This reflects the assumption of lower leverage in micro finance, while maintaining the need for competitive ROEs to succeed in attracting equity capital. (See Table: 5.18)

5.5.5 Interest Rate Policy (Qualitative)

The analyst should assess management's policies for setting interest rates on micro-enterprise loans and for deposits, if applicable. Interest rates should be set on the basis of analysis of rates charged by the various sources of funding available to this sector, including both formal and informal lenders, as well as of an analysis of the institution's cost of funds and financial margins necessary for achieving the profitability targets of the institution. The analyst should look into the actual revisions to interest rates made in the past and the application of the stated policies. The analytical work for this indicator places emphasis on the institution's policy for setting interest rates and the degree to which the institution anticipates and responds to macroeconomic changes by analysing and, if necessary, adjusting its interest rates. (See Table: 5.18)

Table: 5.19 Assessing Interest Rate Policy

Scale	Stakeholders Suggested Range
5	The institution structures its interest rates according to its cost structure including financing and operating costs, loan loss provision, and targeted capital increases. It also takes into account the market rates charged by both formal and informal lenders. The institution adjusts its interest rates aggressively in the face of macroeconomic changes.
4	The institution sets its interest rates based on the market rates of both informal and formal lenders rather than on a technical analysis. However, some cost variables are included in the interest rate set by the institution.
3	The institution sets its interest rates based solely on the market rates for loans charged by both informal and formal lenders, and does not include an analysis of costs.
2	The institution charges bank rates without taking into account its costs.
0-1	The institution charges rates below local bank rates. There is a total lack of technical criteria.

5.6.0 Liquidity Management Scoring

This part of scoring depends on the components of liquidity management which include current asset and current liability, productively of other CA and capital to total asset (without fixed asset) in the quantitative part of the analysis and liability structure, availability of funds to meet the credit demand and the cash and the cash flow projections of a PO are in the qualitative part of the analysis.

Table: 5.20 Liquidity Management Scoring

Quantitative Indicators	Wtg. (%)	Qualitative Indicators	Wtg. (%)
Liquidity (18%):			
Current Asset(CA) to Current Liabilities (CL)	4	Liability Structure	2
Productivity of other CA	3	Availability of funds to meet credit demand	3
Capital Total Asset Ratio (Without fixed Asset)	4	Cash flow projections	2
Total	**11%**		**7%**

Liquidity is traditionally defined in terms of the ability to meet obligations when they become due. It is the institution's ability to accommodate decreases in funding sources and increases in assets, and to pay expenses *at a reasonable cost.* Micro Finance Institutions (MFIs) incur liquidity risk in the normal course of operations. Such risk can be planned or unintentional. Various demands on liquidity and specific examples include loan portfolio growth, purchase of fixed assets, withdrawals of deposits, planned runoff of certificates of deposits, dividend payments, scheduled loan payments, salaries, and utility bills.

Liquidity risk from normal operations can be limited by establishing and adhering to specific guidelines on balance sheet composition such as loan to deposit ratios, loans to core deposits ratios, parameters on asset mix, parameters on liability mix, minimum and maximum maturities on asset categories, and funding source limits. Liquidity risk from unplanned activities can be limited by defining and identifying liquidity sources available to the Micro Finance Institution (MFI) such as primary and secondary sources of liquidity on the asset side of the balance sheet (cash, short term investments) and prearranged borrowing agreements with other financial services institutions. While liquidity management focuses on meeting short-term disbursement needs, liability management refers to the general funding strategy over the medium- to long-term.

Table: 5.21 Proposed CAMEL standard for current ratio, productivity of other CA and Capital Total Asset (without fixed Asset) ratio.

Scale	Proposed CAMEL standard for current ratio	Proposed CAMEL standard for productivity of other CA	Proposed CAMEL standard for Capital total asset (without fixed Asset) ratio.
5	1	Above 6%	Above 40%
4	1.5	5% - 6%	35% - 40%
3	**2**	**4%** - 5%	**30%** - 35%
2	2.5	3% - 4%	20% - 30%
1	3	2% - 3%	10% - 20%
0	Above 3	Less than 2%	Less than 10%

To assess the liquidity of an MFI, the CA ratio, productivity of other CA and capital total asset (without fixed asset) ratio are analysed. The average mean of the 30 demonstrated POs and the mean of 3 top rated POs of PKSF for the above ratios are 226.66%, 4.21% and 29.42%. The proposed CAMEL standards for the above ratios are 200%, 4% and 30% respectively by which the range for the individual ratio is developed in the scale of 0-5 to obtain a GPA by using the assigned weight.

5.6.1 Liability Structure (Qualitative)

The analyst should review the composition of the institution's current liabilities including their tenor, interest rate, payment terms, and sensitivity to changes in the macroeconomic environment. The types of guarantees required on credit facilities, the sources of credit available to the PO, and the extent of diversification of these resources are analysed as well. This indicator also focuses on the PO's relationships with banks in terms of leverage achieved based on guarantees, the level of credibility the institution has vis-a-vis the banking sector and/or depositors, and the ease with which it can obtain funds when required.

Table: 5.22 Assessing Liability Structure

Scale	The proposed CAMEL Range for Liability Structure
5	The institution has a clear financing strategy evidenced by a diversified funding base, minimization of financing costs, and an optimal maturity structure of its liabilities. The institution has ample credibility in the financial system and can easily access significant resources based on documented arrangements with banks and past experience.
4	The institution does have a financing strategy, but it has not been successful in fully implementing it, resulting in a heavy reliance on a few funding sources. This financial structure does not minimize financing costs nor does it result in an optimal maturity structure. The institution has ample credibility with the financial system and access to some future resources, but these arrangements have not been formalized or documented.
3	The institution does not have a clear financing strategy. It has some credibility in the financial system and a limited degree of access to resources from the financial system.
2	The institution does not have a clear financing strategy. It has limited credibility in the financial system and limited accessibility to financial resources from the system.
1	The institution does not have a financing strategy nor access to resources from the financial system, but there is potential for obtaining financial resources.
0	The institution has no financing strategy, no access to resources from the financial system, and no potential for obtaining these resources in the near future.

5.6.2 Liquidity (Current Asset / Current Liability) Ratio

The liquidity ratio includes both "stored" liquidity (cash plus short-term investments) plus the liquidity that are available through overdraft-type lines of credit from other financial institutions, as a percentage of the end of period loan portfolio. The larger the ratio, the greater the institution's liquidity to fund future growth. However, the magnitude and composition of the stored liquidity will determine whether the institution has achieved an appropriate balance between the goals of liquidity and profitability. If the institution's liquidity is primarily in the form of overdraft facilities and loan commitments, the institution will most probably have enhanced its productivity of other short-term assets (see table: 5.21)

5.6.3 Availability to Meet Credit Demand (Qualitative)

Studies on loan delinquency clearly show that restrictions on credit are one of the major causes of late payment. When the PO lacks the liquidity to disburse loan funds to clients who are complying with the terms and conditions of their current loans, it creates a strong disincentive for repayment. Micro finance NGOs may suffer added liquidity problems if they depend excessively on donor funds that may be delayed due to bureaucratic hazards. This indicator measures the degree to which the institution has delivered credit in a timely and agile manner.

Table: 5.23 Assessing Availability of Funds to Meet Credit Demand

Scale	The proposed CAMEL Range
5	Borrowers receive their loans in a timely and agile manner.
4	With minor exceptions, the institution is successful at disbursing loans in a timely and agile manner.
3	The institution has occasionally encountered difficulties with timely and agile disbursement of loans. These difficulties have been resolved but with some delay.
2	The institution suffers from frequent liquidity problems that translate into insufficient funds to increase loans as anticipated by borrowers and/or delays in disbursement.
1	At times, the institution stops disbursements for lack of liquidity.
0	The institution frequently stops disbursement because of liquidity problems.

5.6.4 Cash Flow Projections (Qualitative)

This indicator evaluates the degree to which the institution is successful in accurate projection of the overall cash flow requirement of the institution. In assessing this area, the analyst looks into the current and past cash flow projections prepared by the Micro Finance Institution (MFI) to determine whether they have been prepared with sufficient detail and analytical rigor and whether past projections have accurately predicted cash inflows and outflows. For example, in projecting loan demand the institution should differentiate between current and new borrowers, taking into account historical patterns of loan increases for subsequent loans, client desertion rates, and seasonality factors.

Table: 5.24 Assessing Cash Flow Projections

Scale	Proposed CAMEL Range for Cash Flow Projection
5	The institution prepares comprehensive cash flow projections that include cash inflows from loan repayment and other sources as well as outflows for credit disbursement and other expenses for periods of 30, 60, and 90 days. These projections have been prepared in a thorough and easily replicable manner and have generated figures that are quite close to the actual numbers.
4	The institution prepares cash flow projections for periods of up to 60 days. These projections have been prepared in a thorough and easily replicable manner and, with few exceptions; have generated results that are close to the actual numbers.
3	The institution prepares cash flow projections for periods of up to 30 days.
2	The institution estimates disbursement needs based on past experiences rather than on the basis of cash flow projections. To date, these estimates have proven to be close to the institution's actual disbursement needs.
1	The institution estimates disbursement needs based on past experience. These estimates have proven to be imprecise.
0	The institution does not estimate disbursement needs.

5.6.5 Productivity of Other Current Assets (Quantitative)

This indicator is determined by the ratio where the numerator as the interest income, received on cash and cash equivalent asset other than micro credit service charge and the denominator as the current asset other than the loan outstanding in MCP. The more the output of this ratio the more the liquidity for the MFIs. (See Table: 5.21)

5.6.6 Capital total Asset (without fixed Asset) (quantitative)

Capital total asset (without fixed asset) ratio is derived from the ratio of capital & total Asset after deducting fixed asset from both numerator & denominator. This is a ratio, which shows the availability of liquidity of an MFI as this ratio shows bigger the capital ratio than total asset the bigger liquidity ratio and the availability to meet the demand of fund. (See Table: 5.21)

CHAPTER SIX

6.1.0 CAMEL Analysis (with Score)

This chapter discusses and analyses the 31 quantitative and qualitative indicators for each of the five areas of CAMEL to get the CAMEL score which has been derived from the spreadsheets of financial statements of 30 selected POs. It also analyses & compares the results with the stake holders' suggested range with the 3 top rated MFIs in Bangladesh as well as with the conventional banking sector and the stake holders' suggestions.

6.2.0 Capital Adequacy Analysis

In the formal sector capital adequacy focuses on the total risk weighted capital intended to protect the depositors from the potential shocks of losses that a bank might incur. It helps absorbing major financial risk like credit risk, foreign exchange risk, interest rate risk and risk involved in off-balance sheet operations.

Table: 6.1 Capital adequacy analysis

CAMEL Components	Indicator	Stake holders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Capital Adequacy	Debt Equity Ratio (DER)	2.5	1.70	4.52	3.11	3
	Savings Ratio (SR)	28%	0.41	0.25	33%	**30%**
	Capital Total Asset Ratio (with fixed Asset) KTA		0.51	0.25	38%	**35%**
	Reserve Ratio (RR)		0.05	0.04	4.5%	**4%**

For the volatile nature of micro credit, ratios which demonstrate the capital adequacy in the formal financial sector are different from the ratios of informal financial sectors. In formal sector, capital adequacy deals with the total risk weighted capital to protect the depositors from the potential shocks of losses while in the micro credit sector capital adequacy focuses on the leverage, ability to raise equity of the Partner Organization (PO) and availability of capital to meet the demand of the field. That is why, Debt Equity Ratio (DER), Savings Ratio (SR), Capital Total Asset KTA

Ratio (with fixed Asset), Reserve Ratio (RR) are pivotal in measuring capital adequacy of MFIs. The Basle Agreement Report prepared by the Committee on Banking Supervision adopted the ratio of eight percent of the risk weighted assets to capital and reserves. However, banks in Bangladesh require to maintain a minimum Capital Adequacy Ratio (CAR) of not less than 9.0 percent of their risk-weighted assets (RWA) – (See Capital Adequacy - Annexure VIII)

For formal financial sector, Bangladesh Bank Annual Report shows that the gap between the amount of provision required to keep and the amount actually maintained by the banks was 46.46% in average during 1997-2003 (See Annex – VIII).

Considering the volatility of MC and the suggestions from stake holders and examining the 3 top rated POs and the 30 demonstrated POs of PKSF, the debt equity and the savings ratio, capital total asset (with fixed asset) and the reserve for the ideal type of MFI are 3.30%, 35% and 4% respectively.

6.3.0 Asset Quality Analysis

The asset composition of all banks shows a high proportion of loans and advances (60.7 percent) in total assets. A high proportion of loans and advances indicate vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant. As per the regulations of Bangladesh Bank, banks are not allowed to approve large loans in favour of any individual of group of borrowers in excess of 50 percent of their total capital.

In the formal sector, the ratio of non-performing loans (NPLs) to total loans of all the banks show that the average ratio of gross NPLs to total loans by all type of Banks is 33.68 percent. (See Assets Quality - Annex – VIII)

For the volatile nature of micro credit the measuring tools for asset quality are different from the formal financial sector. In the micro credit sector asset quality deals with OTR, ODR, DR & LLP to measure asset quality of MFIs. Taking this aspect into account, the OTR, ODR, DR & LLP for the ideal type of MFI 3 top rated POs and the 30 demonstrated POs of PKSF, are 97%, 94%, 5% and 4% respectively (see the following table for detail).

Table: 6.2 Assets quality analysis

CAMEL Components	Indicator	Stake holders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Asset Quality	On Time Realisation (OTR)	96%	98.95%	96.67%	97.8%	**97%**
	On Demand Realisation (ODR)		98.20%	91.54%	94.87%	**94%**
	Delinquency Rate (DR)	7.5%	3.93%	10.24%	7.09%	**5%**
	Loan Loss Provision (LLP)		7.90%	4.93%	6.42%	**4%**

6.4.0 Management Analysis

In the initial stages of the micro finance lending, the lending procedure remains at the development phase. As a result, the culture of austerity becomes an asset for the majority of NGOs. It is, in fact a key to demonstrating the financial viability of this activity. Beyond this initial stage, however, only those Micro Finance Institutions (MFIs) having recognized the need to compete for highly capable personnel have been successful in growing without suffering internal crises by to formalizing the management processes. Moreover, it is clear that long-lasting success can only be achieved by institutions that have strong governance and strong management. As the Micro finance sector faces increasing competition, requiring a more proactive approach on the part of the board and senior management, their vision and leadership are key to the success of the institution in the long term.

Table: 6.3 Management Analysis

CAMEL Components	Indicator	Stakeholders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Management	**Cost Structure Analysis:**					
	Income/APA		44.36%	20.16%	32.26%	**30%**
	FC/APA		8.48%	2.89%	5.69%	**5%**
	OC/APA		27.89%	11.46%	19.68%	**20%**
	LLP/APA		2.47%	1.22%	1.85%	**2%**

In the formal sector Sound management is a prime prerequisite for a sound profitability and growth of any financial institution. Since indicators of management quality are primarily specific to individual institution, these cannot be easily aggregated across the sectors. In addition, it is difficult to draw any conclusion regarding management soundness on the basis of monetary indicators, as characteristics of good management are generally qualitative in nature. Nevertheless, ratios such as total expenditure to total income, operating expenses per employee and interest rate spread are generally used to gauge management soundness. In particular, a high and increasing expenditure to income ratio indicates the operating inefficiency that could be due to weaknesses in management

In the formal sector, It indicates (See Management - annex – VIII) that expenditure-income (E1) ratio of the all type of Banks from 1998 to 2003 is 95.05 percent. The ratio was very high as the banks mainly attributable to high administrative and overhead expenses, suspension of income against NPLs their continuing operating losses and making provision out of the profits made.

In MC to measure management the cost structure of MFIs are analysed. Here all the cost of MC operations is considered in terms of APA. The components of MC are income, FC, OC and LLP.

The cost structure of the 3 top rated MFIs in Bangladesh and 30 demonstrated POs are also compared to derive the standard for the concern value of the components of the management indicator.

6.5.0 Earnings Analysis

Strong earnings and profitability profile of a bank reflect good health and its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base, finance its expansion and pay adequate dividends to its shareholders. In the formal sector Although there are various measures of earning and profitability, the best and widely used indicator is returns on assets (ROA) which is supplemented by return on equity (ROE) and net interest margin (NIM)

Table: 6.4 Earnings Analysis

CAMEL Components	Indicator	Stake holders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Earnings	Net Operational Margin		5.52%	4.60%	5.06%	**4%**
	Operational Self Sufficiency Ratio	100%	208.58%	374.62%	291.60%	**250%**
	Return On Equity (ROE)		15.67%	16.61%	13.64%	**12%**
	Return On Asset (ROA)		4.40%	3.39%	3.90	**4%**

Earnings as measured by return on assets (ROS) and return on equity (ROE) vary largely within the industry. Bangladesh Banks annual report for 2003 - 2004 shows ROA and ROE by types of banks the aggregate position of these two indicators for all banks. Analysis of these indicators reveal that the ROA of the NCBs have been very low and that of the DFIs even worse. PCBs had an inconsistently declined from 4.8 percent in 1997 to 2.6 percent in 2003. (See Earnings - Annex – VIII)

The standard of the components of the Earning indicator (NOM, OSS, ROE and ROA) of the 3 top rated MFIs in Bangladesh and the 30 demonstrated POs of PKSF are found 4%, 250%, 12% and 4% respectively.

6.6.0 Liquidity Management Analysis

At present commercial banks deposits are subject to a statutory liquidity requirement (SLR) of 16 percent inclusive of 4 percent cash reserve requirement (CRR). The CRR is to be kept with the Bangladesh bank and the remainder as qualifying secure assets under the SLR, either in cash or in government securities. SLR for the banks operating under the Islamic shariah is 10 percent and the specialized banks are exempt from maintaining the SLR. Liquidity indicators measured as percentage of demand and time liabilities (excluding inter-bank items) of the banks indicate that all the banks had excessive liquidity.

Table: 6.5 Liquidity Management Analysis

CAMEL Components	Indicator	Stakeholders Suggested Value	Top 3 POs Average	30 Demonstrated POs average	Average of Demo & Com	Proposed CAMEL standard
1	2	3	4	5	6	7
Liquidity	Current Asset (CA) to Current Liabilities (CL)	1.33	2.27	2.25	2.26	**2.00**
	Productivity of other CA		7.02%	1.40%	4.21%	**4%**
	Capital Total Asset Ratio (Without Fixed Asset)		37.83%	21.00%	29.42%	**30%**

Bangladesh Banks annual report for 2003 - 2004 shows that the FCBs have the highest liquidity ratios followed by the PCBs. This continuing surplus liquidity seem to suggest scope for reducing lending rate and help raise the growth of credit to private sector. (See Liquidity - Annex – VIII)

In the informal sector other than the CA and CL ratio productivity of other CA and KTA (without fixed asset) are the considering factors to measure liquidity of MFIs.

The CA and CL ratio, productivity of the other CA and the KTA (without fixed asset) for 3 top rated POs and the 30 demonstrated POs of PKSF, are 2.00, 4% and 30% respectively which may be considered as the standards for the liquidity for the MC sector.

Chapter Seven

7.1.0 In Lieu of Conclusion

Considering the weighted average of the means of the components of the CAMEL, the formula for assessing the performance of a model MFI can be as follows:

$$\textbf{Model MFI} = (a_1+a_2)C + (b_1+b_2)A + (c_1+c_2)M + (d_1+d_2)E + (e_1+e_2)L+€$$

Where a, b, c, d, e are considered as the weighted co-efficient for each component of the CAMEL.

Where

a = the weighted average mean of the indicators of Capital Adequacy

b= the weighted average mean of the indicators of Asset Quality

c= the weighted average mean of the indicators of Management

d= the weighted average mean of the indicators of Earnings

e= the weighted average mean of the indicators of Liquidity

€= error

1 and 2 indicate quantitative (level I) and qualitative (level II) indicators respectively.

These co-efficients have been calculated from the mean value of the variables. Here all the variables are weighted in terms of the importance of the components for measuring performance while the mean variables are converted to 0-5 scale considering 5 as the 100 percent contributions for the concerned indicators. The mean of means of all values of the variables contributed to each component of CAMEL which is derived by the following tables:

Table: 7.1 **Proposed CAMEL standard & weighted mean for (level – I) indicators.**

CAMEL Components	Indicator	Proposed CAMEL standard	Assigned weight	Acquired Score	Weighted Mean	Remarks
Capital adequacy	Debt equity	3	4		1.24	
	Saving Ratio	30%	3			
	KTA ratio (with fixed asset)	35%	2			
	RR	4%	2			
Total			11			
Asset Quality	OTR	97%	3		.50	
	ODR	94%	3			
	DR	5%	3			
	LLP	4%	3			
Total			12			
Management	Cost structure analysis					
	Income/APA	30%	3		.16	
	FC/APA	5%	2			
	OC/APA	20%	3			
	LLP/APA	2%	2			
Total			10			
Earnings	NOM	4%	6		.55	
	OSS	250%	4			
	ROE	12%	5			
	ROA	4%	5			
Total			20			
Liquidity	Current ratio	2.00	4		.85	
	Productivity of other CA	4%	3			
	K TA ratio	30%	4			
Total			11			

Table: 7.2 Proposed CAMEL standard & weighted mean for (level – II) indicators.

CAMEL Components	Indicator	Proposed CAMEL standard	Assigned weight	Acquired Score	Weighted Mean	Remarks
Capital adequacy	Reserve Policy	2.17	4		2.17	
Total			**4**			
Asset Quality	Infrastructure	3.88	2		3.43	
	Portfolio Classification System	2.98	4			
	Productivity of long Term Asset	3.88	2			
Total			**8**			
Management	Governance	1.82	4		2.99	
	Human Resource	4.22	2			
	Process control and Audit	4.45	3			
	IT System	1.90	2			
Total			**11**			
Earnings	Interest Rate Policy	3.65	4		3.65	
Total			**4**			
Liquidity	Liability Structure	2.07	2		1.50	
	Ability to Meet Credit Demand	0.73	3			
	Cash Flow Projection	2.07	2			
Total			**7**			

Table: 7.3 Proposed CAMEL standard for model MFI

CAMEL Components	Weighted variables Co-efficient	Weighted Mean of level I indicators	Weighted Mean of level II indicators	Weighted Av. Mean of level I and level II indicators
Capital Adequacy	A	1.24	2.17	1.71
Asset quality	b	.50	3.43	1.97
Management	c	.16	2.99	1.58
Earnings	d	.55	3.65	2.10
Liquidity	e	.85	1.50	1.18

Development of Model MFI from the Proposed CAMEL Standard:

Putting the weighted average mean of the level I and Level II indicators in the model MFI we get,

Model MFI =1.5C + 2A + 1.5M + 2E + 1L

We can derive from co-efficient of the proposed CAMEL standard of an ideal MFI that, in assessing its performance, the evaluator should assess the importance of capital adequacy, asset quality, earnings, and management in terms of liquidity management. According to the formula proposed above, the emphasis should be given two times on asset quality and earnings while 1.5 times on capital adequacy and management in terms of the importance on liquidity management.

Conversely, the formula for assessing the performance of a model MFI is an outcome of the study undertaken to develop a methodology for rating the partner organization of PKSF. The main reason for coming up with a formula at the end of this study is to offer opportunity of doing further research in future to test the formula.

The End

Annex-I.A

Rating System and DMR Policy of PKSF

(A) Indicators of First Level:

Sl. No.		weight	Acquired score
1	Viability of micro Credit Borrowers	2.0	
2.1	Program placement	2.0	
2.2(A)	Group management	2.0	
2.2(B)	Loan disbursement and recovery system	2.0	
2.2(C)	Level of skills of field workers	2.0	
2.2(D)	Efficiency of accountant	1.0	
2.2(E)	Quality of chief executive	2.0	
2.2(F)	Skill of mid and top level Managers	2.0	
2.5(A)	Sound governance	2.0	
2.5(B)	Incentive base for management staff & employees	1.0	
2.6(A)	MIS	2.0	
2.6(B)	Accounting system	1.0	
2.6(D)	Regular internal supervision	1.0	
2.7	Status of physical assets	1.0	
3(A)	Financial sustainability	2.0	
3(B)	Quality of portfolio	2.0	
3(C)	Productivity ratios	1.0	
3(D)	Status of micro credit fund of the PO	1.0	
3(E)	Financial ratio analysis	1.0	
	Total	*30.0*	

Grade Point Average (GPA) = Total Score ÷ 30 =

(B) Indicators of Second Level:

Sl. No.		weight	Acquired score
2.3	Human resource development program	2	
2.4	Monitoring & Evaluation	1	
2.6(C)	Internal audit	2	
2.6(E)	Budgetary practice	1	
	Total	*6*	

GPA = Total Score ÷ 6 =

2.0) In order to be capable of getting financed from PKSF remaining in the present category, a PO should score as follows in the 'First and Second Levels' of Indicators.

Category	Number of Members	Desired GPA (Grade Point Average) in the Frame of First Level of Indicators	Desired GPA in the frame of Second Level of Indicators
E	400 - 1,500 (+500)	2.5+	2.00+
D	1,500 - 5,000 (+1000)	2.7+	2.20+
C	5,000 –10,000 (+1000)	2.9+	2.50+
B	10,000 – 15,000 (+1000)	3.0+	2.80+
A	15,000 - 60,000	3.2+	3.00+

3.0) For moving in the next higher category, a 'Partner Organization' should score as follows in the First and Second levels of Indicators.

Category	Desired GPA in the First level of Indicator	Desired GPA in the Second Level of Indicators
From E to D	2.70+	2.20+
From D to C	2.90+	2.50+
From C to B	3.00+	2.80+
From B to A	3.20+	3.00+

Policy for Creating Debt Management Reserve for PKSF

1. Regular Current Loan

Creation of Debt Management Reserve is Not Required.

2. Doubtful Loan

i) Irregular current loan: Creation of 'Debt Management Reserve' is not required. Identifying irregular current loan in time and taking immediate action for turning irregular current loan into regular current loan should be the right policy in this regard.

ii) Delayed Loan: 50% Debt Management Reserve has to be created against Delayed Loan. In the example cited in section 5.2.3, 50% reserve against the outstanding loan amount of Tk. 200 has to be created. That means the amount of Debt Management Reserve will be Tk.100 (50% of Tk. 200).

3. Bad Loan

100% Debt Management Reserve has to be created against bad loan. In the example of section e.3.2, 100% reserve has to be created against outstanding loan amount of Tk. 50. This means the amount of Debt Management Reserve will be Tk. 50 (100% of Tk. 50).

a) Example for Determining "Debt Management Reserve"

Suppose, on 30-6-97 the PO's

amount of delayed loan - Tk. 10,000/-

amount of Bad loan - Tk. 5,000/-

In this case, on 30/6/97 the PO has to create Debt Management Reserve of-

50% against delayed loan + 100% against bad loan = 50% x 10000 + 100% x 5000
= 5000 + 5000 = Tk. 10000

b) The Source for creating "Debt Management Reserve"

Ideally the source of Debt Management Reserve of an PO will be the service charge earned by it. For the PO, the service charge earning is the main source for meeting administrative expenses, creation of debt management reserve, payment of return on group savings and service charge to PKSF.

c) The policy to maintain "Debt Management Reserve"

i) The PO will create 50% and 100% reserves for delayed loan and bad loan respectively at the end of the financial year (July of current year to June of next year). If required the amount of actual reserve will be increased or decreased from the estimated debt management reserve.

ii) The debt management reserve will be deposited in a separate account with a scheduled bank (savings account/fixed deposit).

iii) The relevant accounts will be kept by the PO under the head of "Debt Management Reserve" in the General Ledger through journal vouchers.

iii) To replenish the deficit in core fund due to unrealized loan, fund from "Debt Management Reserve" may be used, if necessary, by a PO for investment in its microcredit program.

Provisional Policy for Debt Management Reserve (DMR) of PKSF

Paili Karma-Sahayak Foundation has formulated a 'Provisional Policy for Debt Management Reserve'. Later, on the basis of detailed analysis of loan repayment of the POs and the experiences of the present system, the Policy may be revised and again will be presented before the Board of Directors of PKSF.

The Provisional Policy for DMR is as follows:

1. The main objective to make provision for DMR will be to keep the Loan Recovery Rate of PKSF at 100%, which may fall due to the default of loan and to create a fund for probable future risky loan. The POs of PKSF can be classified in the following four categories in this respect.

a) POs under BIPOOL.

b) Good POs under OOSA: The POs whose loan recovery rate at the field level is 95%+and whose institutional capacity is satisfactory according to the performance indicators.

c) Potentially good P0s under OOSA: The new P0s whose institutional capacity is not yet up to the satisfactory level but these P0s may have the potentials. Foundation is also extending support to increase their institutional capacity along with provision of loan fund to these P0s.

d) P0s under OOSA whose performance is not satisfactory: The P0s whose performance is not satisfactory according to the performance indicators and whose loan recovery rate is below 95%. PKSF has taken the decision to stop further financing of the P0s and recover the overdue loan due to the Foundation.

2. On the basis of the above, against the outstanding of loan at the end of a financial year under BIPOOL and the good and potentially good P0s under OOSA as mentioned in 1(b) and 1(c), 2% should be kept as provision in DMR plus the amount equal to the overdue of loan at the end of a financial year for the P0s as stated in 1(d) to be kept as provision for DMR.

Annex I.B

Definitions of CAMEL Ratios Components

- **Capital Adequacy**. The objective of the capital adequacy analysis is to measure the financial solvency of a PO by determining whether the risks it has incurred are adequately offset with capital and reserves to absorb potential losses. One indicator is ***leverage***, which illustrates the strength of debts accommodation in terms of equity and loan outstanding. Another indicator, ***ability to raise equity***, is a qualitative assessment of a PO's ability to respond to a need to replenish or increase equity at any given time. A third indicator, ***adequacy of reserves***, is a quantitative measure of the PO's loan loss reserve and the degree to which the institution can absorb potential loan losses. The other indicators are used here to evaluate ability to raise equity are capital to Total Asset with and without fixed asset which are adequate by responsible for the capital adequacy.

- **Asset Quality**. The analysis of asset quality is divided into four quantitative and four other qualitative indicators: ODR, OTR, LLP & DR which measures the quality of the PO's portfolio are the quantitative indicators where **portfolio classification system, write off/reserve policy, productivity of the long term asset and infrastructure** includes the four other qualitative indicators. Portfolio classification system entails reviewing the portfolio's aging schedules and assessing the institutions policies associated with assessing portfolio risk. The indicator ***productivity of long-term assets***, evaluates the PO's policies for investing in fixed assets. The indicator concerns the institutions ***management***, which is evaluated to determine whether it meets the needs of both staff and clients.

- **Management**. The indicator concerns the institutions ***management***, which is evaluated to determine whether it meets the needs of both staff and clients. A quantitative indicator-cost structure analysis indicates the different operational and financial cost derived from the performing asset. It represents the total cost of certain percent of average performing assets which includes all levels of cost coverage i.e. the operational cost, financial and loan loss provision cost. This analysis shows that the organisation is covering all the actual cost from the income of micro credit project which also indicates the rate of change in capital, either increase or decrease. Five qualitative performance indicators are necessary to analyse the

management capacity of the organisation under this study. These include governance, human resources; processes, controls, and audit; information technology system; and strategic planning and budgeting. ***Governance*** focuses on how well the institutions board of directors function, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. The second indicator, in assessing ***human resource***s, one has to examine whether the department of human resources provides clear guidance and support to staff engaged in operation to deal with recruitment and training of new personnel, incentives, and performance evaluation system. The third indicator, ***processes, controls, and audit***, focuses on the degree to which the PO has formalized key processes and the effectiveness with which it controls risk throughout the Organisation, as measured by its control environment and the quality of its internal and external audit. The fourth indicator, ***information technology syste***m, assesses whether computerized information systems are operating effectively and efficiently, and are timely and accurately generating reports for the management. It also reviews the information technology environment and the extent and quality of the specific information technology controls. The fifth indicator, ***strategic planning and budgetin***g, looks at whether the institution undertakes a comprehensive and participatory process for generating short-term and long-term financial projections and whether the plan is updated as needed and used in the decision making process.

- **Earnings**. The proposed CAMEL rating method for the PKSF's PO's considers five quantitative and two qualitative indicators to measure the profitability of Pos. The profitability analysis shows the analysis of Net operational margin derived from the performing asset. ***Adjusted return on equity (ROE)*** measures the ability of the institution to maintain and increase its net worth through earnings from operations. ***Operational financial efficiency &*** measures the efficiency of the institution and monitors its progress toward achieving a cost structure that is closer to the level leading the institutions operationally and financially sustainable. ***Adjusted return on assets (ROA)*** measures how well the PO's assets are utilised, or the institutions ability to generate earnings with a given asset base. CAMEL evaluator also requires to study the PO's ***interest rate policy and ability of enhance real growth in capital to*** assess the degree to which management analyses to enhance real growth in capital and adjusts the institutions interest rates on micro-credit loans (and deposits if applicable), based on the cost of funds, profitability targets, and macroeconomic environment.

- **Liquidity Management**. This is the fifth area of the proposed CAMEL rating to evaluate the PO's ability to accommodate decreases in funding sources and increases in assets and to pay expenses at a reasonable cost. Indicators in this area include current asset to current liabilities liquid asset (SLR) to total demand and time liability, liability structure, availability of funds to meet credit demand, cash flow projections, and productivity of other current assets. Current asset to current liability and liquid asset to total demand and time liability are the acid test of an organisation, which evaluates the organisation's instant capacity to pay the current liability. Under ***liability structure***, the study reviews the composition of the institutions liabilities, including their tenor, interest rate, payment terms, and sensitivity to changes in the macroeconomic environment. The types of guarantees required on credit facilities, sources of credit available to the PO, and the extent of resource diversification are analysed as well. It also focuses on the PO's relationship with banks in terms of leverage achieved on the basis of guarantees, the level of credibility the institution has with regard to the banking sector, and the ease with which the institution can obtain funds when required. ***Availability of funds to meet credit demands*** is necessary to measure the degree to which the institution has delivered credit in a timely and agile manner. ***Cash flow projections*** demonstrate the degree to which the institution is successful in projecting its cash flow requirements. Under this analysis, the evaluators looks at current and past cash flow projections prepared by the PO to determine whether they have been prepared with sufficient detail and analytical rigour and whether past projections have accurately predicted its cash inflows and outflows. ***Productivity of other current assets*** focuses on the management of current assets other than the loan portfolio, primarily cash and short-term investments. The PO is rated to the extent to which it maximises the use of its cash, bank accounts, and short-term investments by investing in a timely fashion and at the highest returns, commensurate with its liquidity needs.

Annex-II

List of the 30 Examined Partner Organisations of PKSF

PO1	Prottyashi
PO2	Agro Foresty Seed Production and Development Association (ASPADA)
PO3	Participatory Development Initiatives of the Masses (PDIM)
PO4	Shishu Unnayan Sangstha (SUS)
PO5	Samaj Kallayan-O-Palli Unnayan Sangstha (SPUS)
PO6	Gono Kallayan Trust (GKT)
PO7	Swanirvar Bangladesh
PO8	Rangpur Dinajpur Rural Services (RDRS)
PO9	Grameen Manobik Unnayan Sangstha (GRAMAUS)
PO10	Pally Bikash Kendra (PBK)
PO11	Bangladsh Extension Education Service (BEES)
PO12	Society for Social Service (SSS)
PO13	Alternative Development Initiative (ADI)
PO14	Somej-O-Jati Gatan (SOJAG)
PO15	Prodipan
PO16	Gram Bikash Kendra (GBK)
PO17	Society for Development Initiatives (SDI)
PO18	Organization for Social Advancement and Cultural Activities (OSAKA)
PO19	Center for Rehabilitation Education Earning Development (CREED)
PO20	Daridra Bimochon Sangstha (DBS)
PO21	Polli Sree
PO22	Noble Education & Literary Society (NELS)
PO23	Taraf Sartaz Santi Sangha (TSSS)
PO24	Resource Integration Centre (RIC)
PO25	Grameen Seba Sangstha (GSS)
PO26	Association for Rural Advancement in Bangladesh (ARAB)
PO27	Unnayan
PO28	Integrated Development Foundation (IDF)
PO29	Bangladesh Enfironment Development Organization (BEDO)
PO30	Unnayan ProcheshtA

List of three top rated Partner Organisations of PKSF

I	ASA
II	Bangladesh Rural Advancement Committee (BRAC)
III	Thengamara Mahila Unnayan Samity (TMSS)

Annex - III

Balance Sheet of 30 Examined and 3 top rated Pos of BKSF

PARTICULARS	PROTTYASHI		ASPADA		PDIM		SUS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	753,204	740,165	1,053,391	626,066	855417	573800	116400	107120
Less Depreciation	0	0	90,568	0	241603	113516	49455	39011
Net Property & Equipt.	**753204**	**740165**	**962823**	**626066**	**613814**	**460284**	**66945**	**68109**
Current Assets :	**14,585,821**	**10,905,606**	**19,649,138**	**13,275,990**	**20,996,065**	**15,469,570**	**3,817,748**	**4,024,468**
Total Loan Outstanding:	**12,817,130**	**9,605,550**	**18,732,680**	**12,356,680**	**20,302,696**	**14,365,682**	**3,306,130**	**3,225,430**
Outstanding Loan (Micro Credit)	12,817,130	9,605,550	18732680	12356680	20062171	14147211	3306130	3225430
Outstanding Loan (Micro Enterprise)	0	0	0	0	240525	218471	0	0
Outstanding Loan (PLDP)								
Investment	**693,573**	**361,013**	**419,531**	**200,068**	**412,090**	**329,724**	**446,669**	**445,762**
DFI/MCP	285,104	0	90568	0	0	0	0	0
DMFI	27,622	25,172	13413	56767	123556	69206	125794	125296
DMR	380,847	335841	195000	122051	265159	187244	320875	320466
Loan to others	0	0	85550	21250	12500	60887	0	0
Advance giver to staff	0	0	35000	0	10875	12387	0	0
Savings fund (FDR)						0	0	0
Receivables						0		
Closing Balance	**1,075,118**	**939,043**	**496,927**	**719,242**	**281,279**	**774,164**	**64,949**	**353,276**
Cash in hand		4,284	1,105	0	7105	71616	0	21068
Cash at Bank	1,075,118	934759	495,822	719,242	274174	702548	64949	332208
Other current Asset								
Total Property and Assets	**15,339,025**	**11,645,771**	**20,611,961**	**13,902,056**	**21,609,879**	**15,929,854**	**3,884,693**	**4,092,577**
Liabilities and Capital (Equity)								
Capital (Equity):	**5854798**	**3717933**	**4245320**	**3240969**	**5317046**	**3414826**	**2533293**	**2326431**
Fund Accounts	5,161,225	3,167,830	4036907	3062151	4961652	3197582	2374547	2226431
Debt Management Reserve(DMR)	380,847	345841	195000	122051	245582	187244	58746	
Depreciation fund	285,104	179,090			0	0	0	0
Disaster Management Fund (DMF)	27,622	25,172	13413	56767	79812	0	100000	100000
DMF Fund (PKSF)					30000	30000	0	0
Others								
Liabilities (Debts):	**9,484,227**	**7,927,838**	**16,366,641**	**10,661,087**	**16,292,833**	**12,515,028**	**1,351,400**	**1,766,146**
Long-Term Liabilites:	**6,248,227**	**5,833,288**	**9,770,849**	**7,282,500**	**8,210,000**	**5,925,000**	**707,400**	**1,707,400**
Payable to PKSF (Micro Credit)	6,220,000	5,710,000	9758349	7270000	8160000	5800000	700000	1700000
Payable to PKSF (PLDP/SRLP)								
Payable to PKSF (ID Loan)	28,227	123,288	12500	12500	50000	125000	7400	7400
Payable to PKSF (MEP)								
Current Liabilities:	**3236000**	**2094550**	**6595792**	**3378587**	**8082833**	**6590028**	**644000**	**58746**
Loan received from other Project			69287	0	1064150	1743725	644000	58746
Loan received from savings	3,236,000	2,094,550	6110864	3325864	6784000	4484000	0	
Liability for Expenses			337137	0	0	0	0	0
Primary deposit					1500	1500	0	0
Micro Enterprise					216000	360000	0	0
Accounts payable					17183	803	0	0
Other Liabilities/Provision for Expences			78504	52723				0
Total Liabilities and Capital (Equity)	15,339,025	11,645,771	20,611,961	13,902,056	21,609,879	15,929,854	3,884,693	4,092,577

PARTICULARS	SPUS		GKT		SWANIRVAR BANGLADESH		RDRS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets	1310524	0	1744744	744374	398100	262154	0	0
Less Depreciation	0	0	574868	499713		0	0	0
Net Property & Equipt.	**1310524**	**0**	**1169876**	**244661**	**398100**	**262154**	**0**	**0**
Current Assets :	**10,386,191**	**0**	**24,547,179**	**22,110,123**	**29,687,242**	**21,262,063**	**117,539,005**	**56,868,249**
Total Loan Outstanding:	**7,837,356**	**0**	**19,023,640**	**19,310,740**	**27,705,585**	**20,073,662**	**73,761,068**	**45,477,519**
Outstanding Loan (Micro Credit)	7837356	0	19023640	19310740	13779896	20073662	58381065	45477519
Outstanding Loan (Micro Enterprise)	0	0		0	0	0	0	0
Outstanding Loan (PLDP)				0	13925889	0	15380003	0
Investment	**2,212,956**	**0**	**2,593,716**	**1,229,778**	**1,335,990**	**507,328**	**38,088,490**	**7,500,000**
DFI/MCP	0	0	183333	183333	0	0	0	0
DMFI	300311	0	406100	0	0	0	0	0
DMR	1905000	0	2004283	1046445	958641	415473	8090099	7500000
Loan to others	0	0	0	0	0	0	0	0
Advance giver to staff	7645	0	0	0	377349	91855	0	0
Savings fund (FDR)	0	0	0	0	0	0	29998391	0
Receivables				0	0	0	0	0
Closing Balance	**335,879**	**0**	**2,929,823**	**1,569,606**	**645,667**	**681,073**	**5,689,447**	**3,890,730**
Cash in hand	3703	0	66630	1197008	601916	79373	735887	394563
Cash at Bank	332176	0	2863193	372597	43751	601700	4953560	3496167
Other current Asset				0		0	0	0
Total Property and Assets	**11,696,715**	**0**	**25,717,055**	**22,354,784**	**30,085,342**	**21,524,217**	**117,539,005**	**56,868,249**
Liabilities and Capital (Equity)								
Capital (Equity):	**4699760**	**0**	**2392299**	**2336443**	**11626484**	**9093586**	**43942618**	**33627665**
Fund Accounts	2494760		-11984	1289998	3919820	8700798	43942618	33627665
Debt Management Reserve(DMR)	1905000		2004283	1046445	7706664	392788		
Depreciation fund	0							
Disaster Management Fund (DMF)	300000		400000	0				
DMF Fund (PKSF)	0							
Others								
Liabilities (Debts):	**6,996,955**	**0**	**23,324,756**	**20,018,341**	**18,458,858**	**12,430,631**	**73,596,387**	**23,240,584**
Long-Term Liabilites:	**3,300,000**	**0**	**20,400,000**	**16,600,000**	**9,992,300**	**5,050,000**	**11,200,000**	**6,400,000**
Payable to PKSF (Micro Credit)	3300000		20400000	16600000	2815000	5050000	11200000	6400000
Payable to PKSF (PLDP/SRLP)					7177300	0		
Payable to PKSF (ID Loan)	0							
Payable to PKSF (MEP)								
Current Liabilities:	**3696955**	**0**	**2924756**	**3418341**	**8466558**	**7380631**	**62396387**	**16840584**
Loan received from other Project	991955		30330	90000	2131617	1373536	20485272	16840584
Loan received from savings	2705000				6334941	6007095	41911115	0
Liability for Expenses	0							
Primary deposit	0							
Micro Enterprise	0							
Accounts payable	0							
Other Liabilities/Provision for Expences	0		2894426	3328341				
Total Liabilities and Capital (Equity)	**11,696,715**	**0**	**25,717,055**	**22,354,784**	**30,085,342**	**21,524,217**	**117,539,005**	**56,868,249**

PARTICULARS	GRAMUS		PBK		BEES		SSS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	1139874	925264	845682	490374	41985	24658	42868446	41928242
Less Depreciation	0	0	198944	122724	10863	0	1085323	716953
Net Property & Equipt.	**1139874**	**925264**	**646738**	**367650**	**31122**	**24658**	**41783123**	**41211289**
Current Assets :	**5,387,551**	**7,021,048**	**32,750,836**	**23,973,934**	**37,785,477**	**24,395,172**	**227,446,204**	**157,927,917**
Total Loan Outstanding:	**4,217,360**	**5,900,880**	**20,865,061**	**15,209,894**	**29,803,007**	**17,687,208**	**168,618,939**	**108,674,690**
Outstanding Loan (Micro Credit)	4217360	5900880	20865061	15209894	29803007	17687208	168618939	108674690
Outstanding Loan (Micro Enterprise)	0	0	0	0				
Outstanding Loan (PLDP)	0	0	0	0				
Investment	**658,554**	**520,000**	**10,016,686**	**6,248,950**	**4,312,347**	**3,842,717**	**38,219,733**	**13,834,594**
DFI/MCP	0	0	1500000	4900000			800000	800000
DMFI	0	0	128799	0			500000	500000
DMR	628554	520000	249134	182601	353198	167068	7381362	8205863
Loan to others	0	0	15047	712624				
Advance giver to staff	0	0	9590	12725				
Savings fund (FDR)	0	0	7100000	441000	3500000	3500000	25572574	2350000
Receivables	30000	0	1014116	0	459149	175649	3965797	1978731
Closing Balance	**250,647**	**416,420**	**1,869,089**	**2,515,090**	**3,611,723**	**2,856,047**	**20,334,932**	**14,168,733**
Cash in hand	0	0	16174	2900	25183	10579	149601	64300
Cash at Bank	250647	416420	1852915	2512190	3586540	2845468	20185331	14104433
Other current Asset	260990	183748	0	0	58400	9200	272600	21249900
Total Property and Assets	**6,527,425**	**7,946,312**	**33,397,574**	**24,341,584**	**37,816,599**	**24,419,830**	**269,229,327**	**199,139,206**
Liabilities and Capital (Equity)								
Capital (Equity):	**1510363**	**1846312**	**7310190**	**6621309**	**5481089**	**2397124**	**41246877**	**30335390**
Fund Accounts	1376918	1726312	6904279	6423234	5094701	2230056	37558668	26094176
Debt Management Reserve(DMR)		0	261121	198075	386388	167068	3188209	4241214
Depreciation fund			0	0				
Disaster Management Fund (DMF)	120000	120000	44790	0			500000	0
DMF Fund (PKSF)			100000	0				
Others	13445		0	0				
Liabilities (Debts):	**5,017,062**	**6,100,000**	**26,087,384**	**17,720,275**	**32,335,510**	**22,022,706**	**227,982,450**	**168,803,816**
Long-Term Liabilites:	**4,600,000**	**6,100,000**	**11,850,000**	**9,769,900**	**21,430,000**	**13,990,000**	**141,600,000**	**97,900,000**
Payable to PKSF (Micro Credit)	4600000	6100000	11850000	9769900	21430000	13990000	141600000	97900000
Payable to PKSF (PLDP/SRLP)			0	0				
Payable to PKSF (ID Loan)			0	0				
Payable to PKSF (MEP)			0					
Current Liabilities:	**417062**	**0**	**14237384**	**7950375**	**10905510**	**8032706**	**86382450**	**70903816**
Loan received from other Project	324911		343914	0				
Loan received from savings	92151		13893120	7874409	9893000	6507000	85978951	66071961
Liability for Expenses			0	75966				
Primary deposit			0	0				
Micro Enterprise			0	0				
Accounts payable			350	0	4849	1500		
Other Liabilities/Provision for Expences			0	0	1007661	1524206	403499	4831855
Total Liabilities and Capital (Equity)	6,527,425	7,946,312	33,397,574	24,341,584	37,816,599	24,419,830	269,229,327	199,139,206

PARTICULARS	ADI		SOJAG		PRODIPAN		GBK	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	0	0	254751	228751	2800	0	3555518	3045152
Less Depreciation	0	0	119860	0			283205	0
Net Property & Equipt.	**0**	**0**	**134891**	**228751**	**2800**	**0**	**3272313**	**3045152**
Current Assets :	**3,993,916**	**105,519**	**10,449,179**	**10,927,868**	**12,800,248**	**8,713,408**	**29,505,752**	**22,506,479**
Total Loan Outstanding:	**3,791,289**	**98,800**	**9,999,874**	**9,283,715**	**11,983,310**	**8,037,960**	**22,142,792**	**19,335,247**
Outstanding Loan (Micro Credit)	3791289	98800	9999874	9283715	11983310	8037960	22142792	19335247
Outstanding Loan (Micro Enterprise)								
Outstanding Loan (PLDP)								
Investment	**38,058**	**0**	**384,691**	**379,046**	**186,820**	**74,820**	**2,048,637**	**1,557,485**
DFI/MCP								
DMFI	5000	0	185507	185507				
DMR	33058	0	199184	193539	32820	32820	2048637	1557485
Loan to others								
Advance giver to staff								
Savings fund (FDR)					154000	42000		
Receivables								
Closing Balance	**164,569**	**6,719**	**44,614**	**1,245,107**	**630,118**	**600,628**	**5,314,323**	**1,613,747**
Cash in hand	0	0	11630	12655	35121	2594		
Cash at Bank	164568.5	6719	32984	1232452	594997	598034	5314323	1613747
Other current Asset			20000	20000				
Total Property and Assets	**3,993,916**	**105,519**	**10,584,070**	**11,156,619**	**12,803,048**	**8,713,408**	**32,778,065**	**25,551,631**
Liabilities and Capital (Equity)								
Capital (Equity):	**309001.5**	**3519**	**3283920**	**3467398**	**2485198**	**1915760**	**9501436**	**7707540**
Fund Accounts	270943.5	3519	2977835	3166958	2307985	1846566	9293489	7707540
Debt Management Reserve(DMR)	33058		156085	150440	177213	69194	140583	
Depreciation fund								
Disaster Management Fund (DMF)	5000		150000	150000	0		67364	0
DMF Fund (PKSF)								0
Others								
Liabilities (Debts):	**3,684,914**	**102,000**	**7,300,150**	**7,689,221**	**10,317,850**	**6,797,648**	**23,276,629**	**17,844,091**
Long-Term Liabilites:	**2,220,000**	**100,000**	**4,700,000**	**2,860,000**	**7,850,000**	**5,930,000**	**18,170,000**	**13,420,000**
Payable to PKSF (Micro Credit)	2220000	100000	4700000	2860000	7850000	5930000	18170000	13420000
Payable to PKSF (PLDP/SRLP)								
Payable to PKSF (ID Loan)								
Payable to PKSF (MEP)								
Current Liabilities:	**1464914**	**2000**	**2600150**	**4829221**	**2467850**	**867648**	**5106629**	**4424091**
Loan received from other Project			2592150	4742150				
Loan received from savings	1464914	2000			1700000	600000	4451000	3861000
Liability for Expenses								
Primary deposit								
Micro Enterprise								
Accounts payable								
Other Liabilities/Provision for Expences			8000	87071	767850	267648	655629	563091
Total Liabilities and Capital (Equity)	3,993,916	105,519	10,584,070	11,156,619	12,803,048	8,713,408	32,778,065	25,551,631

PARTICULARS	SDI		OSAKA		CREED		DBS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	967027	916377	320439	312169	262904	222529	747986	488888
Less Depreciation	324260	195474	100000	50000	125663	80213		
Net Property & Equipt.	**642767**	**720903**	**220439**	**262169**	**137241**	**142316**	**747986**	**488888**
Current Assets :	**17,339,723**	**11,508,411**	**8,343,773**	**5,943,908**	**12,838,113**	**10,930,727**	**16,987,908**	**9,554,081**
Total Loan Outstanding:	**16,038,057**	**10,896,710**	**7,105,865**	**5,183,762**	**10,886,936**	**10,048,030**	**13,873,620**	**8,238,820**
Outstanding Loan (Micro Credit)	16038057	10896710	7105865	5183762	10886936	10048030	13873620	8238820
Outstanding Loan (Micro Enterprise)								
Outstanding Loan (PLDP)								
Investment	**112,500**	**304,383**	**215,106**	**152,057**	**701,525**	**327,775**	**262,733**	**176,354**
DFI/MCP								
DMFI	55000	40000	22092	21724	61171	58974	105436	78144
DMR	57500	264383	193014	130333	318304	134655	157297	98210
Loan to others					200000			
Advance giver to staff					122050	134146		
Savings fund (FDR)								
Receivables								
Closing Balance		**292,118**	**1,012,802**	**596,089**	**1,249,652**	**554,922**	**2,566,563**	**1,138,907**
Cash in hand	12357	24844		30673	7211			
Cash at Bank	273392	267274	1012802	565416	1242441	554922	2566563	1138907
Other current Asset	1189166	15200	10000	12000			284992	
Total Property and Assets	**17,982,490**	**12,229,314**	**8,564,212**	**6,206,077**	**12,975,354**	**11,073,043**	**17,735,894**	**10,042,969**
Liabilities and Capital (Equity)								
Capital (Equity):	**2896741**	**2284386**	**1041169**	**944250**	**4023472**	**2595397**	**4297725**	**2412987**
Fund Accounts	2783741	1980003	828155	793917	3657500	2419527	4054751	2301444
Debt Management Reserve(DMR)	73000	264383	193014	130333	315972	125870	146052	37319
Depreciation fund							96922	74224
Disaster Management Fund (DMF)	40000	40000	20000	20000	50000	50000		
DMF Fund (PKSF)								
Others								
Liabilities (Debts):	**15,085,749**	**9,944,928**	**7,523,043**	**5,261,827**	**8,951,882**	**8,477,646**	**13,438,169**	**7,629,982**
Long-Term Liabilites:	**8,910,000**	**6,202,000**	**5,315,000**	**4,435,000**	**5,540,000**	**6,900,000**	**9,896,664**	**6,660,000**
Payable to PKSF (Micro Credit)	8910000	6180000	5290000	4360000	5540000	6900000	9180000	6560000
Payable to PKSF (PLDP/SRLP)							666664	0
Payable to PKSF (ID Loan)		22000	25000	75000			50000	100000
Payable to PKSF (MEP)								
Current Liabilities:	**6175749**	**3742928**	**2208043**	**826827**	**3411882**	**1577646**	**3541505**	**969982**
Loan received from other Project					100000			
Loan received from savings	4739599	2522578	2166503	773000	3100000	1455000	3236055	951344
Liability for Expenses								
Primary deposit			1000	1000				1000
Micro Enterprise								
Accounts payable								
Other Liabilities/Provision for Expences	1436150	1220350	40540	52827	211882	122646	305450	17638
Total Liabilities and Capital (Equity)	**17,982,490**	**12,229,314**	**8,564,212**	**6,206,077**	**12,975,354**	**11,073,043**	**17,735,894**	**10,042,969**

PARTICULARS	POLLI SREE		NELS		TSSS		RIC	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	536800	536800	130350	117550	147413	139643	753107	227246
Less Depreciation								
Net Property & Equipt.	**536800**	**536800**	**130350**	**117550**	**147413**	**139643**	**753107**	**227246**
Current Assets :	**10,281,204**	**10,138,647**	**3,180,502**	**2,765,209**	**3,740,691**	**3,058,297**	**44,954,599**	**18,097,512**
Total Loan Outstanding:	**8,367,296**	**8,724,515**	**2,820,180**	**2,533,225**	**3,121,870**	**2,631,682**	**35,950,341**	**10,504,960**
Outstanding Loan (Micro Credit)	8367296	8724515	2820180	2533225	3121870	2631682	35950341	10504960
Outstanding Loan (Micro Enterprise)								
Outstanding Loan (PLDP)								
Investment	**1,174,800**	**396,833**	**211,476**	**176,185**	**128,162**	**76,561**	**2,096,048**	**6,186,552**
DFI/MCP								
DMFI	20000	20000	47514	46550				
DMR	1154800	376833	135613	101286	78162	76561	2096048	1900000
Loan to others								56800
Advance giver to staff								18200
Savings fund (FDR)					50000	0		0
Receivables			28349	28349				4211552
Closing Balance	**560,798**	**1,017,299**	**148,846**	**55,799**	**490,659**	**350,054**	**5,995,510**	**1,406,000**
Cash in hand	47605	41725			28139	45954	63949	60279
Cash at Bank	513193	975574	148846	55799	462520	304100	5931561	1345721
Other current Asset	178310						912700	
Total Property and Assets	**10,818,004**	**10,675,447**	**3,310,852**	**2,882,759**	**3,888,104**	**3,197,940**	**45,707,706**	**18,324,758**
Liabilities and Capital (Equity)								
Capital (Equity):	**5122694**	**4160658**	**614532**	**372360**	**820743**	**528477**	**8957367**	**5057687**
Fund Accounts	3967894	3783825	428564	193896	742581	466427	4463038	2896230
Debt Management Reserve(DMR)	1154800	376833	138464	138464	78162	62050	1911680	1911680
Depreciation fund							137091	26546
Disaster Management Fund (DMF)			47514	40000			217507	150500
DMF Fund (PKSF)								
Others							2228051	73731
Liabilities (Debts):	**5,695,310**	**6,514,789**	**2,696,320**	**2,510,399**	**3,067,361**	**2,669,463**	**36,750,339**	**13,267,071**
Long-Term Liabilites:	**3,880,000**	**5,010,000**	**1,830,000**	**1,840,000**	**3,040,000**	**2,660,000**	**22,290,000**	**10,800,000**
Payable to PKSF (Micro Credit)	3880000	5010000	1830000	1840000	3040000	2660000	22290000	10800000
Payable to PKSF (PLDP/SRLP)								
Payable to PKSF (ID Loan)								
Payable to PKSF (MEP)								
Current Liabilities:	**1815310**	**1504789**	**866320**	**670399**	**27361**	**9463**	**14460339**	**2467071**
Loan received from other Project							3314949	0
Loan received from savings	1617000	1335000	794000	595000			11100230	2465571
Liability for Expenses								
Primary deposit								
Micro Enterprise								
Accounts payable			7500	23198				
Other Liabilities/Provision for Expences	198310	169789	64820	52201	27361	9463	45160	1500
Total Liabilities and Capital (Equity)	**10,818,004**	**10,675,447**	**3,310,852**	**2,882,759**	**3,888,104**	**3,197,940**	**45,707,706**	**18,324,758**

PARTICULARS	GSS		ARAB		UNNAYAN		IDF	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :								
Fixed Assets :	456886	337386	2909906	2706356	1377392	547120	352784	398586
Less Depreciation	76595	25131	0	0	0	0	0	0
Net Property & Equipt.	**380291**	**312255**	**2909906**	**2706356**	**1377392**	**547120**	**352784**	**398586**
Current Assets :	**6,078,379**	**6,189,139**	**24,717,470**	**19,715,450**	**25,817,586**	**10,994,779**	**33,256,587**	**26,061,297**
Total Loan Outstanding:	**5,690,987**	**5,884,570**	**15,294,606**	**14,646,286**	**17,313,728**	**9,687,200**	**32,032,416**	**25,084,331**
Outstanding Loan (Micro Credit)	5690987	5884570	15294606	14646286	17313728	9687200	31121282	25084331
Outstanding Loan (Micro Enterprise)							911134	0
Outstanding Loan (PLDP)								
Investment	**334,622**	**233,273**	**7,846,396**	**4,397,519**	**3,924,545**	**608,674**	**880,580**	**755,676**
DFI/MCP	45892	0	100000	0	168697	0		
DMFI	79572	64500			176374	58674		
DMR	170691	152244	7726996	4375619	1740474	550000	803870	429527
Loan to others					839000	0		
Advance giver to staff	38467	16529	19400	21900			76710	326149
Savings fund (FDR)		0		0	1000000	0		
Receivables								
Closing Balance	**52,770**	**71,296**	**1,576,468**	**671,645**	**4,579,313**	**698,905**	**343,591**	**148,684**
Cash in hand	0	70716	0	2000	59	456		
Cash at Bank	52770	580	1576468	669645	4579254	698449	343591	148684
Other current Asset							0	72606
Total Property and Assets	**6,458,670**	**6,501,394**	**27,627,376**	**22,421,806**	**27,194,978**	**11,541,899**	**33,609,371**	**26,459,883**
Liabilities and Capital (Equity)								
Capital (Equity):	**1543248**	**1177176**	**14114276**	**11592206**	**4936102**	**2486896**	**2677999**	**1735113**
Fund Accounts	1332306	989234	10014276	7492206	2985402	2259525	1874129	1307458
Debt Management Reserve(DMR)	149942	137942	4100000	4100000	1740474		803870	427655
Depreciation fund					33852	168697		
Disaster Management Fund (DMF)	50000	50000			176374	58674		
DMF Fund (PKSF)	11000	0						
Others								
Liabilities (Debts):	**4,915,422**	**5,324,218**	**13,513,100**	**10,829,600**	**22,258,876**	**9,055,003**	**30,931,372**	**24,724,770**
Long-Term Liabilites:	**2,640,668**	**3,922,005**	**13,450,000**	**9,000,000**	**16,110,000**	**8,500,000**	**12,200,000**	**10,280,000**
Payable to PKSF (Micro Credit)	2620000	3860000	13450000	9000000	16110000	8500000	11200000	10280000
Payable to PKSF (PLDP/SRLP)								
Payable to PKSF (ID Loan)	20668	62005					1000000	
Payable to PKSF (MEP)								
Current Liabilities:	**2274754**	**1402213**	**63100**	**1829600**	**6148876**	**555003**	**18731372**	**14444770**
Loan received from other Project			42600	1829600				
Loan received from savings	2052413	1352413	20500	0	3100000	0	14090255	10741020
Liability for Expenses						550000		
Primary deposit								
Micro Enterprise								
Accounts payable								
Other Liabilities/Provision for Expences	222341	49800			3048876	5003	4641117	3703750
Total Liabilities and Capital (Equity)	6,458,670	6,501,394	27,627,376	22,421,806	27,194,978	11,541,899	33,609,371	26,459,883

PARTICULARS	BEDO		UNNAYAN PROC.	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Property and Assets :				
Fixed Assets :	895866	543441	246500	95350
Less Depreciation	0	0	0	0
Net Property & Equipt.	**895866**	**543441**	**246500**	**95350**
Current Assets :	**10,904,224**	**7,907,032**	**7,346,298**	**6,775,475**
Total Loan Outstanding:	**9,677,320**	**7,489,800**	**6,785,440**	**6,385,660**
Outstanding Loan (Micro Credit)	9677320	7489800	6785440	6385660
Outstanding Loan (Micro Enterprise)				
Outstanding Loan (PLDP)				
Investment	**217,294**	**79,111**	**101,712**	**69,842**
DFI/MCP				
DMFI				
DMR	217294	79111	101712	69842
Loan to others				
Advance giver to staff				
Savings fund (FDR)				
Receivables				
Closing Balance	**1,009,610**	**338,121**	**459,146**	**319,973**
Cash in hand				
Cash at Bank	1009610	338121	459146	319973
Other current Asset				
Total Property and Assets	**11,800,090**	**8,450,473**	**7,592,798**	**6,870,825**
Liabilities and Capital (Equity)				
Capital (Equity):	**2443625**	**1573429**	**2131423**	**1426600**
Fund Accounts	2229540	1473557	1883461	1356398
Debt Management Reserve(DMR)	99961	76902	173692	70202
Depreciation fund	114124	22970	74270	0
Disaster Management Fund (DMF)				
DMF Fund (PKSF)				
Others				
Liabilities (Debts):	**9,356,465**	**6,877,044**	**5,461,375**	**5,444,225**
Long-Term Liabilites:	**6,880,000**	**5,440,000**	**4,261,375**	**5,444,225**
Payable to PKSF (Micro Credit)	6880000	5440000	4250000	5410000
Payable to PKSF (PLDP/SRLP)				
Payable to PKSF (ID Loan)			11375	34225
Payable to PKSF (MEP)				
Current Liabilities:	**2476465**	**1437044**	**1200000**	**0**
Loan received from other Project				
Loan received from savings	2270000	1420000	1200000	0
Liability for Expenses				
Primary deposit				
Micro Enterprise				
Accounts payable				
Other Liabilities/Provision for Expences	206465	17044		
Total Liabilities and Capital (Equity)	**11,800,090**	**8,450,473**	**7,592,798**	**6,870,825**

Annex-IV

Income Statement of 30 Examined and 3 top rated Pos of PKSF of the year ended on June 30, 2002 and 2003 of

Particulars		PROTTYASHI		ASPADA		PDIM		SUS	
		Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :									
Bank interest		11108	11282	905	0	33321	0	32335	48085
Income from Others		57749	64458	228616	182936	213840	121360	9902	11185
Service Charge (MCP)		3219363	2253729	4272633	2908363	4719155	3518307	960558	975812
Service Charge (MEP)		0	0	0	0	88929	22721	0	0
Service Charge (PLDP)									
Total Income	=	3288220	2329469	4502154	3091299	5055245	3662388	992795	1035082
Expenditure :									
Financial cost:		232526	209911	344450	222001	278670	259150	84499	61938
Service charge paid to PKSF (MCP)		232526	209911	344450	222001	256800	259150	84499	61938
Service charge paid to PKSF (MEP)		0	0	0	0	21870	0	0	0
Service charge paid to PKSF (PLDP)									
Savings interest									
Operational cost:		1027367	834475	3182948	1530500	3034376	2370989	760180	708938
Provision for DMR		20000	104105	72949	33775	58338	0	23770	58746
DMF Expenses		0	0	13413	0	79812	97951	7658	0
Others		1007367	730370	3096586	1496725	2896226	2273038	728752	650192
Excess/(Deficit) of income over Expenditure		2028327	1285083	974756	1338798	1764069	1032249	148116	264206
Total Expenditure :		1259893	1044386	3527398	1752501	3291176	2630139	844679	770876

Particulars	SPUS		GKT		NIRVAR BANGLADE		RDRS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :								
Bank interest	0	0	4503	2648	0	64199	621784	52578
Income from Others	0	0	326092	207913	66281	0	2346100	0
Service Charge (MCP)	58617	0	2664110	3045763	3069479	3955469	7977266	5710462
Service Charge (MEP)	0	0	0	0	0	0		
Service Charge (PLDP)			0	0	2341156	15000	910646	0
Total Income =	**58617**	**0**	**2994705**	**3256324**	**5476916**	**4034668**	**11855796**	**5763040**
Expenditure :								
Financial cost:	**0**	**0**	**682875**	**1051875**	**789475**	**342232**	**237125**	**369100**
Service charge paid to PKSF (MCP)	0	0	682875	1051875	185062	342232	234000	369100
Service charge paid to PKSF (MEP)	0	0			0			
Service charge paid to PKSF (PLDP)					604413	0	3125	0
Savings interest								
Operational cost:	**21365**	**0**	**3613812**	**3080018**	**10970072**	**1891360**	**2162421**	**65147**
Provision for DMR	0	0	957838	0	5864162	0		
DMF Expenses	0	0	0		0			
Others	21365	0	2655974	3080018	5105910	1891360	2162421	65147
Excess/(Deficit) of income over Expenditure	**37252**	**0**	**-1301982**	**-875569**	**-6282631**	**1801076**	**9456250**	**5328793**
Total Expenditure :	**21365**		**4296687**	**4131893**	**11759547**	**2233592**	**2399546**	**434247**

Particulars	GRAMUS		PBK		BEES		SSS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :								
Bank interest	0	0	988429	711887	286991	175649	2912178	599
Income from Others	138831	31947	119357	72577	224506	267296	428744	2789614
Service Charge (MCP)	962628	1118043	5210688	4277589	5672121	3052013	47469253	30323970
Service Charge (MEP)								
Service Charge (PLDP)								
Total Income =	**1101459**	**1149990**	**6318474**	**5062053**	**6183618**	**3494958**	**50810175**	**33114183**
Expenditure :								
Financial cost:	**0**	**0**	**1397119**	**926958**	**736452**	**357075**	**8319613**	**6630238**
Service charge paid to PKSF (MCP)			463465	413100	736452	357075	4591850	3467194
Service charge paid to PKSF (MEP)							87750	
Service charge paid to PKSF (PLDP)								
Savings interest			933654	513858			3640013	3163044
Operational cost:	**1234214**	**0**	**3153729**	**2366486**	**2583852**	**1555081**	**33271248**	**20397081**
Provision for DMR			78520	0	219468	82880	185451	
DMF Expenses			44124	40075			500000	
Others	1234214		3031085	2326411	2364384	1472201	32585797	20397081
Excess/(Deficit) of income over Expenditure	**-132755**	**1149990**	**1767626**	**1768609**	**2863314**	**1582802**	**9219314**	**6086864**
Total Expenditure :	**1234214**	**0**	**4550848**	**3293444**	**3320304**	**1912156**	**41590861**	**27027319**

Particulars		ADI		SOJAG		PRODIPAN		GBK	
		Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :									
Bank interest		2381	0	0	20337			103650	179780
Income from Others		0	0	24585	25135	97821	7325	339070	304846
Service Charge (MCP)		332451	3744	2330187	2307535	2238404	1532742	6483505	4527743
Service Charge (MEP)									
Service Charge (PLDP)									
Total Income	=	**334832**	**3744**	**2354772**	**2353007**	**2336225**	**1540067**	**6926225**	**5012369**
Expenditure :									
Financial cost:		**22162**	**0**	**1071746**	**164950**	**369961**	**238982**	**1038747**	**481425**
Service charge paid to PKSF (MCP)		22162	0	103100	164950	245475	210638	918329	481425
Service charge paid to PKSF (MEP)									
Service charge paid to PKSF (PLDP)									
Savings interest				968646	0	124486	28344	120418	0
Operational cost:		**45245**	**225**	**1472149**	**1352387**	**1504845**	**251227**	**4301529**	**3543706**
Provision for DMR		33058	0	5645	3676	220019	69194		
DMF Expenses		5000	0	32789	33834			283205	0
Others		7187	225	1433715	1314877	1284826	182033	4018324	3543706
Excess/(Deficit) of income over Expenditure		**267425**	**3519**	**-189123**	**835670**	**461419**	**1049858**	**1585949**	**987238**
Total Expenditure :		**67407**	**225**	**2543895**	**1517337**	**1874806**	**490209**	**5340276**	**4025131**

Particulars	SDI		OSAKA		CREED		DBS	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :								
Bank interest			3049	8639	848	0		
Income from Others	58429	17875	12470	5070	371395	29604	161715	7658
Service Charge (MCP)	3665494	3024910	1257778	1262391	2863514	2336252	3457927	1833474
Service Charge (MEP)								
Service Charge (PLDP)								
Total Income =	**3723923**	**3042785**	**1273297**	**1276100**	**3235757**	**2365856**	**3619642**	**1841132**
Expenditure :								
Financial cost:	**431869**	**565341**	**281886**	**258718**	**327376**	**245325**	**199000**	**197400**
Service charge paid to PKSF (MCP)	253002	350763	148412	258718	327376	245325	199000	197400
Service charge paid to PKSF (MEP)								
Service charge paid to PKSF (PLDP)								
Savings interest	178867	214578	133474					
Operational cost:	**2488316**	**2190287**	**957173**	**960572**	**1670408**	**959412**	**1612270**	**1051170**
Provision for DMR			62681	50000	190102	27539	53903	32839
DMF Expenses	128786	195474					34580	18289
Others	2359530	1994813	894492	910572	1480306	931873	1523787	1000042
Excess/(Deficit) of income over Expenditure	**803738**	**287157**	**34238**	**56810**	**1237973**	**1161119**	**1808372**	**592562**
Total Expenditure :	**2920185**	**2755628**	**1239059**	**1219290**	**1997784**	**1204737**	**1811270**	**1248570**

Particulars	POLLI SREE		NELS		TSSS		RIC	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :								
Bank interest	27967	4295	3095	6467			252353	242347
Income from Others	0	920	13770	17085	12945	11862	184436	14565
Service Charge (MCP)	1447838	5149630	623501	403929	793707	724900	6463821	2343141
Service Charge (MEP)								
Service Charge (PLDP)								
Total Income =	**1475805**	**5154845**	**640366**	**427481**	**806652**	**736762**	**6900610**	**2600053**
Expenditure :								
Financial cost:	**189851**	**769063**	**79990**	**55238**	**105288**	**117888**	**1246674**	**427792**
Service charge paid to PKSF (MCP)	189851	769063	79990	55238	105288	117888	580388	301276
Service charge paid to PKSF (MEP)								
Service charge paid to PKSF (PLDP)								
Savings interest							666286	126516
Operational cost:	**1101885**	**601957**	**325718**	**432961**	**425210**	**411025**	**4952226**	**1588241**
Provision for DMR			0	115413	16112	0	0	68971
DMF Expenses	777967	376833					67007	0
Others	323918	225124	325718	317548	409098	411025	4885219	1519270
Excess/(Deficit) of income over Expenditure	**184069**	**3783825**	**234658**	**-60718**	**276154**	**207849**	**701710**	**584020**
Total Expenditure :	**1291736**	**1371020**	**405708**	**488199**	**530498**	**528913**	**6198900**	**2016033**

Particulars	GSS		ARAB		UNNAYAN		IDF	
	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :								
Bank interest	761	721	13628	0			7875	5316
Income from Others	44067	79616	909763	327279	142825	0	96650	110221
Service Charge (MCP)	1633713	1140210	4424343	4217254	4473068	2012058	7133742	4584961
Service Charge (MEP)							21685	0
Service Charge (PLDP)								
Total Income =	**1678541**	**1220547**	**5347734**	**4544533**	**4615893**	**2012058**	**7259952**	**4700497**
Expenditure :								
Financial cost:	**268675**	**214813**	**401625**	**609000**	**402988**	**210613**	**3439469**	**1878071**
Service charge paid to PKSF (MCP)	202675	92850	401625	609000	402988	210613	483876	355450
Service charge paid to PKSF (MEP)								
Service charge paid to PKSF (PLDP)								
Savings interest	66000	121963					2955593	1522621
Operational cost:	**1066794**	**776514**	**2424039**	**2087187**	**3487028**	**1055975**	**3138852**	**2606333**
Provision for DMR	12000	35742			1190474	59000	374793	197650
DMF Expenses	11000	0			117700	0		
Others	1043794	740772	2424039	2087187	2178854	996975	2764059	2408683
Excess/(Deficit) of income over Expenditure	**343072**	**229220**	**2522070**	**1848346**	**725877**	**745470**	**681631**	**216093**
Total Expenditure :	**1335469**	**991327**	**2825664**	**2696187**	**3890016**	**1266588**	**6578321**	**4484404**

Particulars		BEDO		UNNAYAN PROC.	
		Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Income :					
Bank interest		0	0	0	0
Income from Others		92408	78331	3169	5337
Service Charge (MCP)		2266722	1693200	1668483	1486578
Service Charge (MEP)					
Service Charge (PLDP)					
Total Income	=	**2359130**	**1771531**	**1671652**	**1491915**
Expenditure :					
Financial cost:		**348500**	**305923**	**235913**	**201825**
Service charge paid to PKSF (MCP)		247950	205412	235913	201825
Service charge paid to PKSF (MEP)					
Service charge paid to PKSF (PLDP)					
Savings interest		100550	100511		
Operational cost:		**1253347**	**760871**	**908676**	**577698**
Provision for DMR		23059	18578	103490	24521
DMF Expenses					
Others		1230288	742293	805186	553177
Excess/(Deficit) of income over Expenditure		**757283**	**704737**	**527063**	**712392**
Total Expenditure :		**1601847**	**1066794**	**1144589**	**779523**

Annex-V

Derivatives of CAMEL components ratio of 30 Examined and 3 top rated Pos of PKSF

Particular	PROTTYASHI		ASPADA		PDIM		SUS		SPUS	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	9484227	7927838	16366641	10661087	16292833	12515028	1351400	1766146	6996955	0
2) Total Equity	5854798	3717933	4245320	3240969	5317046	3414826	2533293	2326431	4699760	0
3) Savings Outstanding	3236000	2094550	6110864	3325864	6764000	4484000	0	0	2705000	0
4) Total Capital	5854798	3717933	4245320	3240969	5317046	3414826	2533293	2326431	4699760	0
5) Total Asset	15339025	11645771	20611981	13902056	21609879	15929854	3884693	4082577	11696715	0
6) Total Asset (Without Fixed asset)	14585821	10905606	19649138	13275990	20996065	15469570	3817748	4024468	10386191	0
7) Loan loss Reserve (DMR)	380847	345841	195000	122051	245582	187244	58746	0	1905000	0
8) Loan Outstanding	12817130	9605550	18732680	12356680	20302696	14365682	3306130	3225430	7837356	0
9) Total Income	3288220	2329469	4502154	3091299	5055245	3662388	992796	1035082	58617	0
10) Total Financial Cost	232526	209911	344450	222001	278670	259150	84499	61938	0	0
11) Total Operational Cost	1027367	834475	3182948	1530500	3034376	2370989	760180	708938	21365	0
12) Loan loss provision cost	20000	104105	72949	33775	58338	0	23770	58746	0	0
13) Total current asset	13892248	10544593	19229607	13075922	20583975	15139846	3371079	3578706	8173235	0
14) Total current liabilities	5297915	4019535	9820172	5781812	10792133	8545278	877442	622188	4785955	0
15) Others current asset	1768691	1300056	916458	919310	693369	1103888	511618	799038	2548835	0
16) Imputed Capital cost	256440	162845	185945	141954	232887	149569	110958	101898	205849	0
17) Net Income	1751887	1018133	715862	1163069	1450974	882680	13388	103562	-168597	0
18) Bank Interest	11108	11282	905	0	33321	0	32335	48085	0	0
27) Actual reserve made by PO	380847	345841	195000	122051	245582	187244	58746	0	1905000	0
19) Average Perfoming Asset	12745714	10905606	16462564	13275990	18232818	15469570	3921108	4024468	5193096	0
20) Average Loan Outstanding	11211340	9605550	15544680	12356680	17334189	14365682	3265780	3225430	3918678	0
21) Total loan amount reliased (MCP+MEP+P	21462420	14979880	28691000	19794580	32053986	23455359	6357300	6510630	390764	0
22) Total sevice charge reliased (MCP+MEP+	3219363	2246979	4272633	2908363	4808084	3541028	950558	975812	58616	0
23) Amount Over due	374530	258870	0	0	37809	37809	205830	5805	7507840	0
24) Current Over Due	115660	92840	0	0	0	0	23200	5805	0	0
25) Bad loan	166030	142250	0		37809	31334	182630	180374	7507840	0
26) Required reserve Fund for (DMR)	338033	289617	187326	148908	240458	199279	213865	211223	7511135	0

Particular	GKT		SWANIRVAR		RDRS		GRAMUS		PBK	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	23324756	20018341	18458858	12430631	73596387	23240584	5017062	6100000	26087384	17720275
2) Total Equity	2392299	2336443	11626484	9093586	43942618	33627665	1510363	1846312	7310190	6621309
3) Savings Outstanding	0	0	6334941	6007096	41911115	0	92151	0	13893120	7874409
4) Total Capital	2392299	2336443	11626484	9093586	43942618	33627665	1510363	1846312	7310190	6621309
5) Total Asset	25717055	22354784	30085342	21524217	117539005	56868249	6527425	7946312	33397574	24341584
6) Total Asset (Without Fixed asset)	24547179	22110123	29687242	21262063	117539005	56868249	5387551	7021048	32750836	23973934
7) Loan loss Reserve (DMR)	2004283	1046445	7706664	392788	0	0	0	0	261121	198075
8) Loan Outstanding	19023640	19310740	27705585	20073662	73761068	45477519	4217360	5900880	20865061	15209894
9) Total Income	2994705	3256324	5476916	4034668	11855796	5763040	1101459	1149990	6318474	5062053
10) Total Financial Cost	682875	1051875	789475	342232	237125	369100	0	0	1397119	926958
11) Total Operational Cost	3613812	3080018	10970072	1891360	2162421	65147	1234214	0	3153729	2366486
12) Loan loss provision cost	957838	0	5864162	0	0	0	0	0	78520	0
13) Total current asset	21953463	20880345	28351252	20754735	79450515	49368249	4728997	6501048	22734150	17724984
14) Total current liabilities	9656756	8896341	11764017	9047131	86092387	18952584	1935062	2013000	18147884	11174442
15) Others current asset	5523539	2799383	1981657	1188401	43777937	11390730	1170191	1120168	11885775	8764040
16) Imputed Capital cost	104783	102336	509240	398299	1924687	1472892	66154	80868	320186	290013
17) Net Income	-2364603	-977905	-12656033	1402777	7531563	3855901	-198909	1069122	1368920	1478596
18) Bank Interest	4503	2648	0	64199	621784	52578	0	0	988429	711887
27) Actual reserve made by PO	2004283	1046445	7706664	392788	0	0	0	0	261121	198075
19) Average Perfoming Asset	23328651	22110123	25474653	21262063	87203627	56868249	6204300	7021048	28362385	23973934
20) Average Loan Outstanding	19167190	19310740	23889624	20073662	59619294	45477519	5059120	5900880	18037478	15209894
21) Total loan amount reliased (MCP+MEP+P	26641100	30457630	35574743	24966703	47756091	34642481	6417520	7453620	34736883	28474786
22) Total sevice charge reliased (MCP+MEP+	2664110	3045763	5410635	3955469	7977266	5710463	962628	1118043	5210688	4277589
23) Amount Over due	5379190	5379190	12243656	12243656	27110710	27110710	1988980	1887140	129705	96618
24) Current Over Due	0	884370	0	8323973	0	5473322	101840	290040	35087	82402
25) Bad loan	4494820	4528483	3919683	3293580	21637388	16504971	1597100	1862833	12216	10301
26) Required reserve Fund for (DMR)	5073450	5111447	8236288	6920681	24686753	18831023	1765422	2059161	260771	219892

Particular	BEES		SSS		ADI		SOJAG		PRODIPAN	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	32335510	22022706	227982450	168803816	3684914	102000	7300150	7689221	10317850	6797648
2) Total Equity	5481089	2397124	41246877	30335390	309002	3519	3283920	3467398	2485198	1915760
3) Savings Outstanding	9893000	6507000	85978951	66071961	1464914	2000	0	0	1700000	600000
4) Total Capital	5481089	2397124	41246877	30335390	309002	3519	3283920	3467398	2485198	1915760
5) Total Asset	37816599	24419830	269229327	199139206	3993916	105519	10584070	11156619	12803048	8713408
6) Total Asset (Without Fixed asset)	37785477	24395172	227446204	157927917	3993916	105519	10449179	10927868	12800248	8713408
7) Loan loss Reserve (DMR)	386388	167068	3188209	4241214	33058	0	156085	150440	177213	69194
8) Loan Outstanding	29803007	17687208	168618939	108674690	3791289	98800	9999874	9283715	11983310	8037960
9) Total Income	6183618	3494958	50810175	33114183	334832	3744	2354772	2353007	2336225	1540067
10) Total Financial Cost	736452	357075	8319613	6630238	22162	0	1071746	164950	369961	238982
11) Total Operational Cost	2583852	1555081	33271248	20397081	45245	225	1472149	1352387	1504845	251227
12) Loan loss provision cost	219468	82880	185451	0	33058	0	5645	3676	220019	69194
13) Total current asset	33473130	20552455	189226471	144093323	3955858	105519	10064488	10548822	12613428	8638588
14) Total current liabilities	17977410	12649406	133110450	103210816	2197514	35000	4151150	5773021	5058350	2824548
15) Others current asset	7982470	6707964	58827265	49253227	202627	6719	449305	1644153	816938	675448
16) Imputed Capital cost	240072	104994	1806613	1328690	13534	154	143836	151872	108852	83910
17) Net Income	2403774	1394928	7227250	4758174	220833	3365	-338604	680122	132548	896754
18) Bank Interest	286991	175649	2912178	599	2381	0	0	20337	0	0
27) Actual reserve made by PO	386388	167068	3188209	4241214	33058	0	156085	150440	177213	69194
19) Average Perfoming Asset	31090325	125920688	192687061	80960916	2049717	5277349	10688524	11864068	10756828	19109580
20) Average Loan Outstanding	23745108	93153074	138646815	56232990	1945045	5049337	9641795	10633513	10010635	15090376
21) Total loan amount reliased (MCP+MEP+P	38148201	20346037	251070751	368373624	2770425	31200	19400841	19190736	14912650	10218280
22) Total sevice charge reliased (MCP+MEP+	5672121	3052013	38035153	30323970	332451	3744	2330187	230535	12456684	1532742
23) Amount Over due	172400	165904	1675569	1611655	30600	15300	83374	52796	398714	398714
24) Current Over Due	6496	113611	63914	187034	15300	15300	30578	7290	0	378264
25) Bad loan	52293	205148	1424621	577804	0	0	45506	50187	20450	30827
26) Required reserve Fund for (DMR)	380639	1493263	3188209	1293088	39331	102103	148621	163908	325428	490561

Particular	GBK		SDI		OSAKA		CREED		DBS	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	23276629	17844091	15085749	9944928	7,523,043	5,261,827	8,951,882	8,477,646	13,438,169	7,629,982
2) Total Equity	9501436	7707540	2896741	2284386	1,041,169	944,250	4,023,472	2,595,397	4,297,725	2,412,987
3) Savings Outstanding	4451000	3861000	4739599	2522578	2,166,503	773,000	3,100,000	1,455,000	3,236,055	951,344
4) Total Capital	9501436	7707540	2896741	2284386	1,041,169	944,250	4,023,472	2,595,397	4,297,725	2,412,987
5) Total Asset	32778065	25551631	17982490	12229314	8,564,212	6,206,077	12,975,354	11,073,043	17,735,894	10,042,969
6) Total Asset (Without Fixed asset)	29505752	22506479	17339723	11508411	8,343,773	5,943,908	12,838,113	10,930,727	16,987,908	9,554,081
7) Loan loss Reserve (DMR)	140583	0	73000	264383	193,014	130,333	315,972	125,870	146,052	37,319
8) Loan Outstanding	22142792	19335247	16038057	10896710	7,105,865	5,183,762	10,886,936	10,048,030	13,873,620	8,238,820
9) Total Income	6926225	5012369	3723923	3042785	1273297	1276100	3235757	2365856	3619642	1841132
10) Total Financial Cost	1038747	481425	431869	565341	281886	258718	327376	245325	199000	197400
11) Total Operational Cost	4301529	3543706	2488316	2190287	957173	960572	1670408	959412	1612270	1051170
12) Loan loss provision cost	0	0	0	0	62681	50000	190102	27539	53903	32839
13) Total current asset	27457115	20948994	17227223	11204028	8128667	5791851	12136688	10602952	16725175	9377727
14) Total current liabilities	11102729	8852691	9116049	5789588	3961993	2290377	5240082	3854646	6807404	3167782
15) Others current asset	7362960	3171232	1301666	611701	1,237,908	760,146	1,951,177	882,697	3,114,288	1,315,261
16) Imputed Capital cost	416163	337590	126877	100056	45603	41358	176228	113678	188240	105689
17) Net Income	1169786	649648	676861	187101	-74046	-34548	871643	1019902	1566229	454034
18) Bank Interest	103650	179780	0	0	3049	8639	848	0	0	0
27) Actual reserve made by PO	140583	0	73000	264383	193014	130333	315972	125870	146052	37319
19) Average Perfoming Asset	26006116	19923101	14424067	9926092	7,143,841	9,391,011	11,884,420	13,959,318	13,270,995	9,917,643
20) Average Loan Outstanding	20739020	17686652	13467384	9001288	6144813.5	8036349	10467483	11960825	11056220	8303058
21) Total loan amount reliased (MCP+MEP+P	43223455	4527743	24704653	20528112	8451897	8548531	19044094	15648910	22840613	12223160
22) Total sevice charge reliased (MCP+MEP+	6483505	30184837	3665494	3024910	1257778	1262391	2863514	2336252	3525560	1833474
23) Amount Over due	1562786	1562786	219664	154343	577556	464,575	1134212	420445	20274	20270
24) Current Over Due	0	382252	65321	75414	112981	393225	713767	420445	0	20274
25) Bad loan	1180534	1006783	78929	52754	71350	93302	0	0	0	0
26) Required reserve Fund for (DMR)	1577460	1345290	275473	184120	334376	437251	314886	359809	148670	111649

Particular	POLLI SREE		NELS		TSSS		RIC	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	5,695,310	6,514,789	2,696,320	2,510,399	3,067,361	2,669,463	36,750,339	13,267,071
2) Total Equity	5,122,694	4,160,658	614,532	372,360	820,743	528,477	8,957,367	5,057,687
3) Savings Outstanding	1,617,000	1,335,000	794,000	595,000	0	0	11,100,230	2,465,571
4) Total Capital	5,122,694	4,160,658	614,532	372,360	820,743	528,477	8,957,367	5,057,687
5) Total Asset	10,818,004	10,675,447	3,310,852	2,882,759	3,888,104	3,197,940	45,707,706	18,324,758
6) Total Asset (Without Fixed asset)	10,281,204	10,138,647	3,180,502	2,765,209	3,740,691	3,058,297	44,954,599	18,097,512
7) Loan loss Reserve (DMR)	1,154,800	376,833	138,464	138,464	78,162	62,050	1,911,680	1,911,680
8) Loan Outstanding	8,367,296	8,724,515	2,820,180	2,533,225	3,121,870	2,631,682	35,950,341	10,504,960
9) Total Income	1475805	5154845	640366	427481	806652	736762	6900610	2600053
10) Total Financial Cost	189851	769063	79990	55238	105288	117888	1246674	427792
11) Total Operational Cost	1101885	601957	325718	432961	425210	411025	4952226	1588241
12) Loan loss provision cost	0	0	0	115413	16112	0	0	68971
13) Total current asset	9106404	9741814	2969026	2589024	3612529	2981736	42858551	11910960
14) Total current liabilities	3095710	3158089	1470220	1277599	1030561	887263	21816039	6031071
15) Others current asset	1,913,908	1,414,132	360,322	231,984	618,821	426,615	9,004,258	7,592,552
16) Imputed Capital cost	224374	182237	26917	16309	35949	23147	392333	221527
17) Net Income	-40305	3601588	207741	-192440	224093	184702	309377	293522
18) Bank Interest	27967	4295	3095	6467	0	0	252353	242347
27) Actual reserve made by PO	1154800	376833	138464	138464	78162	62050	1911680	1911680
19) Average Perfoming Asset	10,209,926	6,659,575	2,972,856	3,252,950	3,399,494	24,006,448	31,526,056	12,087,946
20) Average Loan Outstanding	8545905.5	5772347.5	2676702.5	2827547.5	2876776	19291011.5	23227650.5	8097973.5
21) Total loan amount reliased (MCP+MEP+P	13285219	12750381	5157045	3187673	5306812	4874035	43122140	15624160
22) Total sevice charge reliased (MCP+MEP+	1447838	1389550	623501	396654	793707	724900	6463821	2343141
23) Amount Over due	1619875	1351171	89081	89081	38320	38320	1350340	1350340
24) Current Over Due	268704	492862	0	3705	0	17450	0	190140
25) Bad loan	858309	579746	85376	90187	20870	139950	1160200	404486
26) Required reserve Fund for (DMR)	1174881	793576	114540	120995	60430	405230	1601270	558259

Particular	GSS		ARAB		UNNAYAN		IDF	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	4,915,422	5,324,218	13,513,100	10,829,600	22,258,876	9,055,003	30,931,372	24,724,770
2) Total Equity	1,543,248	1,177,176	14,114,276	11,592,206	4,936,102	2,486,896	2,677,999	1,735,113
3) Savings Outstanding	2,052,413	1,352,413	20,500	0	3,100,000	0	14,090,255	10,741,020
4) Total Capital	1,543,248	1,177,176	14,114,276	11,592,206	4,936,102	2,486,896	2,677,999	1,735,113
5) Total Asset	6,458,670	6,501,394	27,627,376	22,421,806	27,194,978	11,541,899	33,609,371	26,459,883
6) Total Asset (Without Fixed asset)	6,078,379	6,189,139	24,717,470	19,715,450	25,817,586	10,994,779	33,256,587	26,061,297
7) Loan loss Reserve (DMR)	149,942	137,942	4,100,000	4,100,000	1,740,474	0	803,870	427,655
8) Loan Outstanding	5,690,987	5,884,570	15,294,606	14,646,286	17,313,728	9,687,200	32,032,416	25,084,331
9) Total Income	1678541	1220547	5347734	4544533	4615893	2012058	7259952	4700497
10) Total Financial Cost	268675	214813	401625	609000	402988	210613	3439469	1878071
11) Total Operational Cost	1066794	776514	2424039	2087187	3487028	1055975	3138852	2606333
12) Loan loss provision cost	12000	35742	0	0	1190474	59000	374793	197650
13) Total current asset	5743757	5955866	16871074	15317931	21893041	10386105	32376007	25305621
14) Total current liabilities	3146174	2696475	4501600	4799600	11465176	3360003	22757372	17837170
15) Others current asset	387,392	304,569	9,422,864	5,069,164	8,503,858	1,307,579	1,224,171	976,966
16) Imputed Capital cost	67594	51560	618205	507739	216201	108926	117296	75998
17) Net Income	263478	141918	1903865	1340607	-680798	577544	189542	-57555
18) Bank Interest	761	721	13628	0	0	0	7875	5315
27) Actual reserve made by PO	149942	137942	4100000	4100000	1740474	0	803870	427655
19) Average Perfoming Asset	6,133,759	15,453,305	22,216,460	22,766,518	18,406,183	22,125,683	29,658,942	18,482,761
20) Average Loan Outstanding	5787778.5	10589588	14970446	15980007	13500464	20859808	28558373.5	17380825.5
21) Total loan amount reliased (MCP+MEP+P	11231583	8071734	29495680	28115040	31328737	13583920	50141875	41647232
22) Total sevice charge reliased (MCP+MEP+	1633713	1140210	4424343	4217254	4473068	2012058	7155427	4584961
23) Amount Over due	331782	331782	927317	770441	301935	116083	0	0
24) Current Over Due	0	85030	156876	87376	185852	74083	0	0
25) Bad loan	246752	451469	683065	729129	42000	64895	0	0
26) Required reserve Fund for (DMR)	342860	627313	871995	930800	251017	387851	311213	189406

Particular	BEDO		UNNAYAN PROC.	
	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
1) Total Debt	9,356,465	6,877,044	5,461,375	5,444,225
2) Total Equity	2,443,625	1,573,429	2,131,423	1,426,600
3) Savings Outstanding	2,270,000	1,420,000	1,200,000	0
4) Total Capital	2,443,625	1,573,429	2,131,423	1,426,600
5) Total Asset	11,800,090	8,450,473	7,592,798	6,870,825
6) Total Asset (Without Fixed asset)	10,904,224	7,907,032	7,346,298	6,775,475
7) Loan loss Reserve (DMR)	99,961	76,902	173,692	70,202
8) Loan Outstanding	9,677,320	7,488,800	6,785,440	6,385,660
9) Total Income	2359130	1771531	1671652	1491915
10) Total Financial Cost	348500	305923	235913	201825
11) Total Operational Cost	1253347	760871	908676	577698
12) Loan loss provision cost	23059	18578	103490	24521
13) Total current asset	10686930	7827921	7244586	6705633
14) Total current liabilities	4746865	3232244	2606254	1796594
15) Others current asset	1,226,904	417,232	560,858	389,815
16) Imputed Capital cost	107031	68916	93356	62485
17) Net Income	627193	617243	330217	625386
18) Bank Interest	0	0	0	0
27) Actual reserve made by PO	99961	76902	173692	70202
19) Average Perfoming Asset	9,405,628	7,626,665	7,060,887	3,387,738
20) Average Loan Outstanding	8583560	7137620	6585550	3192830
21) Total loan amount reliased (MCP+MEP+P	15111480	11288000	11123220	9910520
22) Total sevice charge reliased (MCP+MEP+	2266722	1693200	1668483	1486578
23) Amount Over due	12100	0	221160	221160
24) Current Over Due	12100	0	0	221160
25) Bad loan	0	0	0	0
26) Required reserve Fund for (DMR)	96652	80371	176222	85437

Annex-VI

Ratios Used to determine CAMEL Quantitative (level-I) Indicators for 30 examined and 3 top rated POs of PKSF

Quantitative Indicators	Wtg.	PROTTYASHI		ASPADA		PDIM		SUS	
		year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
Capital Adequacy									
Leverage :									
Debt Equity	4	1.62	2.13	3.86	3.29	3.06	3.66	0.53	0.76
Savings Ratio	3	0.29	0.22	0.39	0.27	0.39	0.31	0.00	0.00
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.38	0.32	0.21	0.23	0.25	0.21	0.65	0.57
Adequacy of Reserve:									
Reserve Ratio	2	0.03	0.04	0.01	0.01	0.01	0.01	0.02	0.00
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	99.53%	99.46%	100.00%	100.00%	100.00%	100.00%	99.68%	99.92%
On Demand Realisation (ODR)	3	98.51%	98.52%	100.00%	100.00%	99.90%	99.86%	97.26%	99.92%
Delinquency Rate (DR)	3	2.92%	2.70%	0.00%	0.00%	0.19%	0.26%	6.23%	0.18%
Loan loss Provision	3	3.40%	3.60%	1.25%	0.99%	1.42%	1.30%	1.80%	0.00%
Management:									
Cost structure Analysis :	3	25.80%	21.36%	27.35%	23.28%	27.73%	23.67%	25.32%	25.72%
Income/Av.Perform Asset	2	1.82%	1.92%	2.09%	1.67%	1.53%	1.68%	2.15%	1.54%
Finance Cost/ Av.Perform Asset	3	8.06%	7.65%	19.33%	11.53%	16.64%	15.33%	19.39%	17.62%
Operational Cost/ Av.Perform Asset	2	2.01%	1.49%	1.13%	1.07%	1.28%	0.97%	2.83%	2.53%
Earnings (24%)									
Profitability Analysis :	6	25.80%	21.36%	27.35%	23.28%	27.73%	23.67%	25.32%	25.72%
		1.82%	1.92%	2.09%	1.67%	1.53%	1.68%	2.15%	1.54%
		23.97%	19.44%	25.26%	21.61%	26.20%	22.00%	23.16%	24.18%
		8.06%	7.65%	19.33%	11.53%	16.64%	15.33%	19.39%	17.62%
		15.91%	11.78%	5.92%	10.08%	9.56%	6.67%	3.78%	6.56%
		2.01%	1.49%	1.13%	1.07%	1.28%	0.97%	2.83%	2.53%
		13.90%	**10.29%**	**4.79%**	**9.02%**	**8.28%**	**5.71%**	**0.95%**	**4.03%**
Operational Self Sufficiency ratio		320.06%	279.15%	141.45%	201.98%	166.60%	154.47%	130.60%	146.00%
Financial Self Sufficiency ratio	4	216.85%	192.96%	121.24%	163.18%	142.56%	131.75%	103.89%	118.60%
Return On Equity (ROE)	5	29.92%	27.38%	16.86%	35.89%	27.29%	25.85%	0.53%	4.45%
Return On Asset (ROA)	5	11.42%	8.74%	3.47%	8.37%	6.71%	5.54%	0.34%	2.53%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	262.22%	262.33%	195.82%	226.16%	190.73%	177.17%	384.19%	575.18%
Productivity of other CA	4	0.63%	0.87%	0.10%	0.00%	4.81%	0.00%	6.32%	6.02%
Capital Total Asset Ratio (without Fixed Asset)	4	0.35	0.27	0.17	0.20	0.22	0.19	0.65	0.56

Quantitative Indicators	Wtg.	SPUS		GKT		SWANIRVAR BANGLADESH		RDRS	
		year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002	year 2002-2003	year 2001-2002
Capital Adequacy									
Leverage :									
Debt Equity	4	1.49	0.00	9.75	8.57	1.59	1.37	1.67	0.69
Savings Ratio	3	0.69	0.00	0.00	0.00	0.27	0.30	0.70	0.00
Ability to Raise Equity:			0.00						
Capital Total Asset Ratio (with Fixed Asset)	2	0.40	0.00	0.09	0.10	0.39	0.42	0.37	0.59
Adequacy of Reserve:									
Reserve Ratio	2	0.24	0.00	0.11	0.05	0.28	0.02	0.00	0.00
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	100.00%	0.00%	100.00%	97.43%	100.00%	77.65%	100.00%	88.06%
On Demand Realisation (ODR)	3	5.65%	0.00%	84.49%	86.17%	77.00%	70.26%	67.28%	59.81%
Delinquency Rate (DR)	3	95.80%	0.00%	28.28%	27.86%	44.19%	60.99%	36.75%	59.61%
Loan loss Provision	3	48.61%	0.00%	10.46%	5.42%	32.26%	1.96%	0.00%	0.00%
Management:									
Cost structure Analysis :	3	1.13%	0.00%	12.84%	14.73%	21.50%	18.98%	13.60%	10.13%
Income/Av.Perform Asset	2	0.00%	0.00%	2.93%	4.76%	3.10%	1.61%	0.27%	0.65%
Finance Cost/ Av.Perform Asset	3	0.41%	0.00%	15.49%	13.93%	43.06%	8.90%	2.48%	0.11%
Operational Cost/ Av.Perform Asset	2	3.96%	0.00%	0.45%	0.46%	2.00%	1.87%	2.21%	2.59%
Earnings (24%)									
Profitability Analysis :	6	1.13%	0.00%	12.84%	14.73%	21.50%	18.98%	13.60%	10.13%
		0.00%	0.00%	2.93%	4.76%	3.10%	1.61%	0.27%	0.65%
		1.13%	0.00%	9.91%	9.97%	18.40%	17.37%	13.32%	9.48%
		0.41%	0.00%	15.49%	13.93%	43.06%	8.90%	2.48%	0.11%
		0.72%	0.00%	-5.58%	-3.96%	-24.66%	8.47%	10.84%	9.37%
		3.96%	0.00%	0.45%	0.46%	2.00%	1.87%	2.21%	2.59%
		-3.25%	**0.00%**	**-6.03%**	**-4.42%**	**-26.66%**	**6.60%**	**8.64%**	**6.78%**
Operational Self Sufficiency ratio		274.36%	0.00%	82.87%	105.72%	49.93%	213.32%	548.26%	8846.21%
Financial Self Sufficiency ratio	4	25.80%	0.00%	68.04%	76.90%	44.64%	153.30%	274.17%	302.18%
Return On Equity (ROE)	5	-3.59%	0.00%	-98.84%	-41.85%	-108.86%	15.43%	17.14%	11.47%
Return On Asset (ROA)	5	-1.44%	0.00%	-9.19%	-4.37%	-42.07%	6.52%	6.41%	6.78%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	170.78%	0.00%	227.34%	234.71%	241.00%	229.41%	120.21%	260.48%
Productivity of other CA	4	0.00%	0.00%	0.08%	0.09%	0.00%	5.40%	1.42%	0.46%
Capital Total Asset Ratio (without Fixed Asset)	4	0.33	0.00	0.05	0.09	0.38	0.42	0.37	0.59

Quantitative Indicators	Wtg.	GRAMUS		PBK		BEES		SSS	
		year 2002-2003	year 2001-2002	year 2002-2003	year 2002-2003	year 2002-2003	year 2001-2002	year 2002-2003	year 2002-2003
Capital Adequacy									
Leverage :									
Debt Equity	4	3.32	3.30	3.57	2.68	5.90	9.19	5.90	9.19
Savings Ratio	3	0.02	0.00	0.77	0.52	0.42	0.07	0.42	0.07
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.23	0.23	0.22	0.27	0.14	0.10	0.14	0.10
Adequacy of Reserve:									
Reserve Ratio	2	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	98.64%	96.73%	99.91%	99.75%	99.99%	99.52%	99.99%	99.52%
On Demand Realisation (ODR)	3	78.77%	81.96%	99.68%	99.71%	99.61%	99.30%	99.61%	99.30%
Delinquency Rate (DR)	3	47.16%	31.98%	0.62%	0.64%	0.58%	0.94%	0.58%	0.94%
Loan loss Provision	3	0.00%	0.00%	1.45%	1.30%	1.63%	0.18%	2.30%	7.54%
Management:									
Cost structure Analysis :	3	17.75%	16.38%	22.28%	21.11%	19.89%	2.78%	19.89%	2.78%
Income/Av.Perform Asset	2	0.00%	0.00%	4.93%	3.87%	2.37%	0.28%	2.37%	0.28%
Finance Cost/ Av.Perform Asset	3	19.89%	0.00%	11.12%	9.87%	8.31%	1.23%	8.31%	1.23%
Operational Cost/ Av.Perform Asset	2	1.07%	1.15%	1.13%	1.21%	0.77%	0.08%	0.77%	0.08%
Earnings (24%)									
Profitability Analysis :	6	17.75%	16.38%	22.28%	21.11%	19.89%	2.78%	19.89%	2.78%
		0.00%	0.00%	4.93%	3.87%	2.37%	0.28%	2.37%	0.28%
		17.75%	16.38%	17.35%	17.25%	17.52%	2.49%	17.52%	2.49%
		19.89%	0.00%	11.12%	9.87%	8.31%	1.23%	8.31%	1.23%
		-2.14%	16.38%	6.23%	7.38%	9.21%	1.26%	9.21%	1.26%
		1.07%	1.15%	1.13%	1.21%	0.77%	0.08%	0.77%	0.08%
		-3.21%	**15.23%**	**5.10%**	**6.17%**	**8.44%**	**1.17%**	**8.44%**	**1.17%**
Operational Self Sufficiency ratio		89.24%	0.00%	200.35%	213.91%	239.32%	224.74%	239.32%	224.74%
Financial Self Sufficiency ratio	4	84.70%	1422.05%	129.72%	141.26%	173.68%	173.26%	173.68%	173.26%
Return On Equity (ROE)	5	-13.17%	57.91%	18.73%	22.33%	43.86%	58.19%	43.86%	58.19%
Return On Asset (ROA)	5	-3.05%	13.45%	4.10%	6.07%	6.36%	5.71%	6.36%	5.71%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	244.38%	0.00%	125.27%	158.62%	186.20%	162.48%	186.20%	162.48%
Productivity of other CA	4	0.00%	0.00%	8.32%	8.12%	3.60%	2.62%	3.60%	2.62%
Capital Total Asset Ratio (without Fixed Asset)	4	0.07	0.13	0.20	0.26	0.14	0.10	0.00	-0.07

Quantitative Indicators	Wtg.	ADI		SOJAG		PRODIPAN		GBK	
		year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003
Capital Adequacy									
Leverage :									
Debt Equity	4	5.53	5.56	11.93	28.99	2.22	2.22	4.15	3.55
Savings Ratio	3	0.62	1.17	0.75	0.00	0.00	0.00	0.17	0.04
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.15	0.15	0.08	0.03	0.31	0.31	0.19	0.22
Adequacy of Reserve:									
Reserve Ratio	2	0.02	0.04	0.01	0.00	0.02	0.02	0.01	0.01
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	99.98%	99.95%	99.51%	69.55%	99.86%	99.96%	100.00%	96.88%
On Demand Realisation (ODR)	3	99.42%	99.60%	99.02%	69.55%	99.62%	99.73%	98.56%	96.72%
Delinquency Rate (DR)	3	0.99%	1.48%	0.81%	15.49%	0.83%	0.57%	3.33%	4.96%
Loan loss Provision	3	1.70%	0.00%	1.62%	1.41%	1.77%	0.46%	0.68%	0.00%
Management:									
Cost structure Analysis :	3	26.37%	40.90%	16.34%	0.07%	22.03%	19.83%	21.72%	8.06%
Income/Av.Perform Asset	2	4.32%	8.19%	1.08%	0.00%	10.03%	1.39%	3.44%	1.25%
Finance Cost/ Av.Perform Asset	3	17.27%	25.19%	2.21%	0.00%	13.77%	11.40%	13.99%	1.31%
Operational Cost/ Av.Perform Asset	2	0.94%	1.64%	0.66%	0.00%	1.35%	1.28%	1.01%	0.44%
Earnings (24%)									
Profitability Analysis :	6	26.37%	40.90%	16.34%	0.07%	22.03%	19.83%	21.72%	8.06%
		4.32%	8.19%	1.08%	0.00%	10.03%	1.39%	3.44%	1.25%
		22.05%	32.71%	15.25%	0.07%	12.00%	18.44%	18.28%	6.81%
		17.27%	25.19%	2.21%	0.00%	13.77%	11.40%	13.99%	1.31%
		4.78%	7.52%	13.05%	0.07%	-1.77%	7.04%	4.29%	5.49%
		0.94%	1.64%	0.66%	0.00%	1.35%	1.28%	1.01%	0.44%
		3.85%	**5.88%**	**12.39%**	**0.06%**	**-3.12%**	**5.76%**	**3.28%**	**5.05%**
Operational Self Sufficiency ratio		152.71%	162.35%	740.04%	1664.00%	159.95%	173.99%	155.25%	613.02%
Financial Self Sufficiency ratio	4	117.08%	116.78%	413.67%	987.52%	87.61%	140.97%	117.77%	268.25%
Return On Equity (ROE)	5	17.52%	15.69%	71.47%	95.62%	-10.31%	19.61%	5.33%	46.81%
Return On Asset (ROA)	5	2.68%	2.39%	5.53%	3.19%	-3.20%	6.10%	1.04%	10.29%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	142.16%	139.61%	180.02%	301.48%	242.45%	182.73%	249.36%	305.84%
Productivity of other CA	4	4.95%	0.00%	1.18%	0.00%	0.00%	1.24%	0.00%	0.00%
Capital Total Asset Ratio (without Fixed Asset)	4	0.08	0.03	0.30	0.30	0.19	0.22	0.21	0.21

Quantitative Indicators	Wtg.	SDI		OSAKA		CREED		DBS	
		year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003
Capital Adequacy									
Leverage :									
Debt Equity	4	2.45	2.32	5.21	4.35	7.23	5.57	2.22	3.27
Savings Ratio	3	0.21	0.22	0.35	0.28	0.35	0.10	0.30	0.12
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.29	0.30	0.16	0.19	0.12	0.15	0.31	0.23
Adequacy of Reserve:									
Reserve Ratio	2	0.01	0.00	0.00	0.02	0.03	0.03	0.03	0.01
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	100.00%	98.91%	99.77%	99.68%	98.85%	96.15%	96.84%	97.72%
On Demand Realisation (ODR)	3	96.95%	95.69%	99.23%	99.35%	94.39%	95.48%	95.08%	97.72%
Delinquency Rate (DR)	3	7.06%	8.08%	1.37%	1.42%	8.13%	8.96%	10.42%	4.18%
Loan loss Provision	3	0.54%	2.94%	3.14%	1.62%	3.02%	1.05%	1.32%	0.45%
Management:									
Cost structure Analysis :	3	26.63%	25.16%	25.82%	30.65%	17.82%	13.59%	27.23%	16.95%
Income/Av.Perform Asset	2	3.99%	2.42%	2.99%	5.70%	3.95%	2.75%	2.75%	1.76%
Finance Cost/ Av.Perform Asset	3	16.54%	17.79%	17.25%	22.07%	13.40%	10.23%	14.06%	6.87%
Operational Cost/ Av.Perform Asset	2	1.60%	1.69%	0.88%	1.01%	0.64%	0.44%	1.48%	0.81%
Earnings (24%)									
Profitability Analysis :	6	26.63%	25.16%	25.82%	30.65%	17.82%	13.59%	27.23%	16.95%
		3.99%	2.42%	2.99%	5.70%	3.95%	2.75%	2.75%	1.76%
		22.64%	22.74%	22.82%	24.96%	13.88%	10.83%	24.47%	15.19%
		16.54%	17.79%	17.25%	22.07%	13.40%	10.23%	14.06%	6.87%
		6.10%	4.96%	5.57%	2.89%	0.48%	0.60%	10.42%	8.32%
		1.60%	1.69%	0.88%	1.01%	0.64%	0.44%	1.48%	0.81%
		4.50%	**3.26%**	**4.69%**	**1.88%**	**-0.16%**	**0.16%**	**8.93%**	**7.50%**
Operational Self Sufficiency ratio		161.02%	141.44%	149.66%	138.92%	133.03%	132.85%	193.71%	246.59%
Financial Self Sufficiency ratio	4	120.32%	114.89%	122.21%	106.56%	99.12%	101.23%	148.84%	179.45%
Return On Equity (ROE)	5	12.31%	8.43%	23.37%	8.19%	-7.11%	-3.66%	21.66%	39.30%
Return On Asset (ROA)	5	3.57%	2.54%	3.76%	1.53%	-0.86%	-0.56%	6.72%	9.21%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	247.30%	236.64%	188.98%	193.52%	205.17%	252.88%	231.61%	275.07%
Productivity of other CA	4	1.41%	5.67%	0.00%	0.00%	0.25%	1.14%	0.04%	0.00%
Capital Total Asset Ratio (without Fixed Asset)	4	0.13	0.14	0.10	0.11	0.30	0.22	0.21	0.20

Quantitative Indicators	Wtg.	POLLI SREE		NELS		TSSS		RIC	
		year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003
Capital Adequacy									
Leverage :									
Debt Equity	4	3.13	3.16	1.11	1.57	4.39	6.74	3.74	5.05
Savings Ratio	3	0.29	0.11	0.19	0.23	0.30	0.21	0.00	0.00
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.24	0.24	0.47	0.39	0.19	0.13	0.21	0.17
Adequacy of Reserve:									
Reserve Ratio	2	0.01	0.00	0.14	0.04	0.05	0.05	0.03	0.02
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	100.00%	99.86%	98.21%	96.63%	100.00%	99.90%	100.00%	99.69%
On Demand Realisation (ODR)	3	99.92%	99.86%	90.09%	91.28%	98.48%	97.57%	99.38%	99.32%
Delinquency Rate (DR)	3	0.15%	0.25%	19.36%	15.49%	3.16%	3.52%	1.23%	1.46%
Loan loss Provision	3	13.51%	6.53%	5.17%	4.90%	2.72%	0.32%	8.23%	23.61%
Management:									
Cost structure Analysis :	3	27.27%	18.56%	14.45%	77.41%	21.54%	13.14%	23.73%	3.07%
Income/Av.Perform Asset	2	1.50%	1.99%	1.86%	11.55%	2.69%	1.70%	3.10%	0.49%
Finance Cost/ Av.Perform Asset	3	12.15%	10.60%	10.79%	9.04%	10.96%	13.31%	12.51%	1.71%
Operational Cost/ Av.Perform Asset	2	1.42%	1.07%	2.20%	2.74%	0.91%	0.50%	1.06%	0.10%
Earnings (24%)									
Profitability Analysis :	6	27.27%	18.56%	14.45%	77.41%	21.54%	13.14%	23.73%	3.07%
		1.50%	1.99%	1.86%	11.55%	2.69%	1.70%	3.10%	0.49%
		25.78%	16.57%	12.60%	65.86%	18.85%	11.44%	20.63%	2.58%
		12.15%	10.60%	10.79%	9.04%	10.96%	13.31%	12.51%	1.71%
		13.63%	5.97%	1.80%	56.82%	7.89%	-1.87%	8.12%	0.87%
		1.42%	1.07%	2.20%	2.74%	0.91%	0.50%	1.06%	0.10%
		12.21%	**4.91%**	**-0.39%**	**54.08%**	**6.99%**	**-2.37%**	**7.07%**	**0.77%**
Operational Self Sufficiency ratio		224.51%	175.15%	133.93%	856.35%	196.60%	98.73%	189.71%	179.25%
Financial Self Sufficiency ratio	4	181.03%	135.95%	97.34%	331.87%	148.02%	84.73%	142.41%	133.46%
Return On Equity (ROE)	5	36.44%	18.82%	-0.79%	86.56%	33.80%	-51.68%	27.30%	34.95%
Return On Asset (ROA)	5	8.83%	4.52%	-0.37%	33.74%	6.27%	-6.68%	5.76%	5.78%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	245.69%	296.03%	294.16%	308.47%	201.94%	202.65%	350.54%	336.06%
Productivity of other CA	4	0.00%	0.00%	1.46%	0.30%	0.86%	2.79%	0.00%	0.00%
Capital Total Asset Ratio (without Fixed Asset)	4	0.45	0.36	0.15	0.09	0.18	0.13	0.18	0.27

Quantitative Indicators	Wtg.	GSS		ARAB		UNNAYAN		IDF	
		year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003
Capital Adequacy									
Leverage :									
Debt Equity	4	4.10	2.62	3.19	4.52	0.96	0.93	4.51	3.64
Savings Ratio	3	0.48	0.30	0.35	0.13	0.00	0.00	0.23	0.00
Ability to Raise Equity:									
Capital Total Asset Ratio (with Fixed Asset)	2	0.20	0.28	0.24	0.18	0.51	0.52	0.18	0.22
Adequacy of Reserve:									
Reserve Ratio	2	0.05	0.18	0.03	0.02	0.27	0.28	0.10	0.00
Asset Quality :									
Portfolio Quality :On Time Realisation (OTR)	3	100.00%	98.95%	100.00%	99.09%	99.54%	99.73%	99.48%	99.53%
On Demand Realisation (ODR)	3	97.35%	93.01%	97.49%	96.52%	97.34%	97.67%	99.16%	99.26%
Delinquency Rate (DR)	3	3.76%	12.85%	5.83%	5.64%	6.06%	5.26%	1.74%	1.20%
Loan loss Provision	3	2.59%	1.30%	27.39%	25.65%	12.89%	0.00%	2.81%	2.46%
Management:									
Cost structure Analysis :	3	21.89%	21.51%	27.37%	7.90%	24.07%	19.96%	25.08%	9.09%
Income/Av.Perform Asset	2	3.95%	3.54%	4.38%	1.39%	1.81%	2.67%	2.19%	0.95%
Finance Cost/ Av.Perform Asset	3	15.71%	13.14%	17.39%	5.02%	10.91%	9.17%	18.94%	4.77%
Operational Cost/ Av.Perform Asset	2	1.24%	1.83%	1.10%	0.33%	2.78%	2.23%	1.17%	0.49%
Earnings (24%)									
Profitability Analysis :	6	21.89%	21.51%	27.37%	7.90%	24.07%	19.96%	25.08%	9.09%
		3.95%	3.54%	4.38%	1.39%	1.81%	2.67%	2.19%	0.95%
		17.93%	17.97%	22.99%	6.51%	22.26%	17.29%	22.89%	8.14%
		15.71%	13.14%	17.39%	5.02%	10.91%	9.17%	18.94%	4.77%
		2.23%	4.83%	5.59%	1.48%	11.35%	8.12%	3.94%	3.37%
		1.24%	1.83%	1.10%	0.33%	2.78%	2.23%	1.17%	0.49%
		0.98%	**3.00%**	**4.49%**	**1.15%**	**8.57%**	**5.89%**	**2.77%**	**2.88%**
Operational Self Sufficiency ratio		139.34%	163.71%	157.34%	157.18%	220.61%	217.73%	132.37%	190.54%
Financial Self Sufficiency ratio	4	104.69%	116.20%	119.63%	117.04%	155.28%	141.84%	112.41%	146.28%
Return On Equity (ROE)	5	3.45%	5.80%	17.07%	12.06%	13.49%	11.56%	-13.79%	23.22%
Return On Asset (ROA)	5	0.68%	1.60%	4.08%	2.18%	6.89%	5.98%	-2.50%	5.00%
Liquidity (15%) :									
Current Asset(CA) to Current Liabilities (CL)	5	196.45%	197.49%	182.56%	220.88%	374.78%	319.15%	190.95%	309.11%
Productivity of other CA	4	2.80%	3.19%	0.20%	0.24%	0.14%	0.00%	0.00%	0.00%
Capital Total Asset Ratio (without Fixed Asset)	4	0.19	0.14	0.45	0.45	0.14	0.18	0.07	0.05

Quantitative Indicators	Wtg.	BEDO		UNNAYAN PROC.		Mean (Demo)
		year 2002-2003	year 2002-2003	year 2002-2003	year 2002-2003	
Capital Adequacy						
Leverage :						
Debt Equity	4	11.55	14.25	3.83	4.37	4.52
Savings Ratio	3	0.49	0.62	0.26	0.20	0.25
Ability to Raise Equity:						
Capital Total Asset Ratio (with Fixed Asset)	2	0.08	0.07	0.21	0.19	0.25
Adequacy of Reserve:						
Reserve Ratio	2	0.03	0.02	0.01	0.01	0.04
Asset Quality :						
Portfolio Quality :On Time Realisation (OTR)	3	100.00%	100.00%	99.93%	100.00%	96.67%
On Demand Realisation (ODR)	3	100.00%	100.00%	99.93%	100.00%	91.54%
Delinquency Rate (DR)	3	0.00%	0.00%	0.13%	0.00%	10.24%
Loan loss Provision	3	1.16%	1.08%	2.64%	2.20%	4.93%
Management:						
Cost structure Analysis :	3	24.48%	25.43%	25.08%	23.23%	20.16%
Income/Av.Perform Asset	2	11.60%	10.16%	3.71%	4.01%	2.88%
Finance Cost/ Av.Perform Asset	3	10.58%	14.10%	13.33%	9.98%	11.46%
Operational Cost/ Av.Perform Asset	2	0.40%	0.41%	1.14%	0.90%	1.22%
Earnings (24%)						
Profitability Analysis :	6	24.48%	25.43%	25.08%	23.23%	20.16%
		11.60%	10.16%	3.71%	4.01%	2.88%
		12.88%	15.27%	21.38%	19.22%	17.27%
		10.58%	14.10%	13.33%	9.98%	11.46%
		2.30%	1.17%	8.05%	9.24%	5.82%
		0.40%	0.41%	1.14%	0.90%	1.22%
		1.90%	**0.76%**	**6.91%**	**8.34%**	4.60%
Operational Self Sufficiency ratio		231.29%	180.35%	188.23%	232.83%	374.62%
Financial Self Sufficiency ratio	4	108.43%	103.07%	138.05%	155.98%	177.06%
Return On Equity (ROE)	5	7.08%	-3.32%	25.67%	39.23%	15.67%
Return On Asset (ROA)	5	0.56%	-0.22%	5.32%	7.30%	3.39%
Liquidity (15%) :						
Current Asset(CA) to Current Liabilities (CL)	5	142.27%	141.87%	225.14%	242.18%	225.61%
Productivity of other CA	4	0.64%	0.54%	0.00%	0.00%	1.40%
Capital Total Asset Ratio (without Fixed Asset)	4	0.14	0.13	0.26	0.20	0.21

Annex -VII

Range used to determine CAMEL qualitative (level-II) indicators for 30 examined POs

PARTICULARS			PROTTYASHI		ASPADA		PDIM		SUS		SPUS	
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Capital Adequacy	Reserve Policy	4	4	3	3	2	3	2	3	3	5	0
Asset Quality	Infrastructure	2	5	5	5	5	5	5	5	5	3	0
	Portfolio classification System	4	5	5	5	5	5	5	0	5	0	0
	Productivity of the long term Asset	2	5	5	5	5	5	5	5	5	3	0
Management	Governance	4	3.00	2.00	3.00	2.00	3.00	2.00	3.00	3.00	0.00	0.00
	Human Resources	2	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	0.00
	Process, Controls and Audit	3	5.00	5.00	3.00	5.00	4.00	5.00	3.00	4.00	5.00	0.00
	Information Technology System	2	4.00	2.00	2.00	2.00	2.00	1.00	4.00	4.00	5.00	5.00
Earnings	Interest Rate Policy	4	5	4.75	3.5	4.25	4.25	4.25	3	4.25	0.75	0
Liquidity	Liability Structure	2	5.00	4.00	2.00	2.00	2.00	2.00	5.00	5.00	5.00	0.00
	Availability of funds to meet credit demand	3	0.00	0.00	0.00	0.00	3.00	0.00	5.00	5.00	0.00	0.00
	Cash flow projections	2	5.00	4.00	2.00	2.00	2.00	2.00	5.00	5.00	5.00	0.00

PARTICULARS			GKT		SWANIRVAR		RDRS		GRAMUS		PBK	
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Capital Adequacy	Reserve Policy	4	1	1	4	4	4	3	1	1	3	3
Asset Quality	Infrastructure	2	3	2	3	0	3	0	2	1	5	5
	Portfolio classification System	4	0	0	0	0	0	0	0	0	5	5
	Productivity of the long term Asset	2	3	2	3	0	3	0	2	1	5	5
Management	Governance	4	1.00	1.00	2.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00
	Human Resources	2	5.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00	5.00
	Process, Controls and Audit	3	5.00	5.00	0.00	5.00	5.00	5.00	3.00	5.00	5.00	5.00
	Information Technology System	2	0.00	0.00	0.00	4.00	3.00	2.00	5.00	2.00	2.00	3.00
Earnings	Interest Rate Policy	4	2.75	2.75	2.75	4.25	5	4.5	2.75	3.75	4.25	4.25
Liquidity	Liability Structure	2	0.00	0.00	5.00	5.00	5.00	5.00	2.00	2.00	2.00	2.00
	Availability of funds to meet credit demand	3	0.00	0.00	0.00	5.00	0.00	0.00	0.00	0.00	5.00	5.00
	Cash flow projections	2	0.00	0.00	5.00	5.00	5.00	5.00	2.00	2.00	2.00	2.00

PARTICULARS			BEES		SSS		ADI		SOJAG		PRODIPAN	
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Capital Adequacy	Reserve Policy	4	2	0	2	0	2	2	2	0	3	3
Asset Quality	Infrastructure	2	5	5	5	5	5	5	5	0	5	5
	Portfolio classification System	4	5	5	5	5	5	5	5	0	5	5
	Productivity of the long term Asset	2	5	5	5	5	5	5	5	0	5	5
Management	Governance	4	1.00	0.00	1.00	0.00	3.00	5.00	2.00	0.00	2.00	1.00
	Human Resources	2	5.00	5.00	5.00	5.00	4.00	0.00	5.00	5.00	0.00	5.00
	Process, Controls and Audit	3	5.00	5.00	5.00	5.00	4.00	0.00	5.00	5.00	5.00	5.00
	Information Technology System	2	1.00	0.00	1.00	0.00	1.00	3.00	1.00	0.00	2.00	2.00
Earnings	Interest Rate Policy	4	4.25	3.5	4.25	3.5	3.5	4.25	5	3	3	4.25
Liquidity	Liability Structure	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.00	4.00
	Availability of funds to meet credit demand	3	2.00	1.00	2.00	1.00	3.00	0.00	0.00	0.00	0.00	0.00
	Cash flow projections	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.00	4.00

PARTICULARS			GBK		SDI		OSAKA		CREED		DBS	
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Capital Adequacy	Reserve Policy	4	1	1	3	2	2	2	2	1	4	2
Asset Quality	Infrastructure	2	5	3	4	3	5	5	4	3	3	4
	Portfolio classification System	4	4	3	0	0	5	5	0	0	0	3
	Productivity of the long term Asset	2	5	3	4	3	5	5	4	3	3	4
Management	Governance	4	2.00	0.00	3.00	3.00	3.00	4.00	1.00	1.00	3.00	1.00
	Human Resources	2	5.00	5.00	5.00	5.00	5.00	2.00	5.00	5.00	5.00	5.00
	Process, Controls and Audit	3	5.00	5.00	4.00	4.00	4.00	2.00	5.00	5.00	5.00	5.00
	Information Technology System	2	2.00	0.00	3.00	3.00	1.00	2.00	1.00	0.00	2.00	1.00
Earnings	Interest Rate Policy	4	3.5	5	4	3.25	3.75	3	2.75	3	4.25	4.5
Liquidity	Liability Structure	2	1.00	2.00	3.00	3.00	1.00	1.00	0.00	0.00	4.00	2.00
	Availability of funds to meet credit demand	3	0.00	0.00	0.00	4.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cash flow projections	2	1.00	2.00	3.00	3.00	1.00	1.00	0.00	0.00	4.00	2.00

PARTICULARS			POLLI SREE		NELS		TSSS		RIC		GSS	
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002
Capital Adequacy	Reserve Policy	4	2	1	4	4	2	3	2	1	3	4
Asset Quality	Infrastructure	2	5	5	3	2	5	5	5	5	5	3
	Portfolio classification System	4	5	5	0	0	4	4	5	5	4	0
	Productivity of the long term Asset	2	5	5	3	2	5	5	5	5	5	3
Management	Governance	4	3.00	1.00	1.00	5.00	2.00	1.00	2.00	0.00	2.00	2.00
	Human Resources	2	5.00	5.00	5.00	0.00	5.00	5.00	5.00	5.00	5.00	5.00
	Process, Controls and Audit	3	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	Information Technology System	2	2.00	2.00	4.00	5.00	1.00	1.00	2.00	0.00	2.00	3.00
Earnings	Interest Rate Policy	4	4.5	4	2.75	5	4.25	2.75	4.25	3.25	3	3.5
Liquidity	Liability Structure	2	2.00	2.00	5.00	5.00	1.00	0.00	2.00	1.00	1.00	3.00
	Availability of funds to meet credit demand	3	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	2.00
	Cash flow projections	2	2.00	2.00	5.00	5.00	1.00	0.00	2.00	1.00	1.00	3.00

PARTICULARS			ARAB		UNNAYAN		IDF		BEDO		UNNAYAN PRO		Mean demo
			Year 2002-2003	Year 2001-2002	Year 2002-2003	Year 2001-2002	Year 2002-200	Year 001-200	Year 2002-2003	Year 2001-2002	Year 002-200	Year 001-200	
Capital Adequacy	Reserve Policy	4	3	1	4	3	2	3	2	2	2	2	**2.17**
Asset Quality	Infrastructure	2	5	5	5	5	5	5	5	5	5	5	**3.88**
	Portfolio classification System	4	2	2	1	2	5	5	5	5	5	5	**2.98**
	Productivity of the long term Asset	2	5	5	5	5	5	5	5	5	5	5	**3.88**
Management	Governance	4	3.00	0.00	2.00	1.00	3.00	1.00	2.00	3.00	2.00	3.00	**1.82**
	Human Resources	2	4.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00	0.00	0.00	**4.22**
	Process, Controls and Audit	3	4.00	5.00	5.00	5.00	3.00	5.00	5.00	5.00	5.00	5.00	**4.45**
	Information Technology System	2	2.00	0.00	5.00	4.00	2.00	1.00	0.00	0.00	0.00	0.00	**1.90**
Earnings	Interest Rate Policy	4	3.75	3.25	4.5	4.25	3.25	3.5	3.25	3.25	3.25	3.25	**3.65**
Liquidity	Liability Structure	2	2.00	1.00	5.00	5.00	1.00	3.00	0.00	0.00	0.00	0.00	**2.07**
	Availability of funds to meet credit demand	3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.73**
	Cash flow projections	2	2.00	1.00	5.00	5.00	1.00	3.00	0.00	0.00	0.00	0.00	**2.07**

Annex VIII

Banking sector Performance, Regulation and Bank supervision. Annual Reports 2003-2004 Bangladesh Bank

Capital adequacy

Banks in Bangladesh have to maintain a minimum Capital Adequacy Ratio (CAR) of not less than 9.0 percent of their risk-weighted assets (RWA) (with at least 4.5 percent in core capital) of Taka 1.0 billion, whichever is higher. Shortfall, if any, in the CAR has to be fully met by March 2005.

Table 6.1A: Capital adequacy ratio (CAR)* by type of banks.

(Percent)

Bank type	1997	1998	1999	2000	2001	2002	2003
NCBs	6.6	5.2	5.3	4.4	4.2	4.1	4.3
DFIs	6.0	6.9	5.8	3.2	3.9	6.9	7.7
PCBs	8.3	6.2	11.0	10.9	9.9	9.7	10.5
FCBs	16.7	17.1	15.8	18.4	16.8	21.4	22.9
Total	7.5	7.3	7.4	6.7	6.7	7.5	8.4

* Before adjustment for provision and other shortfall.

Asset Quality:

Bangladesh Bank annual report shows that as on 31 December 2003 the PCBs and FCBs maintained CAR of 10.5 and 22.9 percent respectively. However, the CAR of NCBs and the DFIs continue to remain below the minimum regulatory CAR. Owing to their high NPL and continuing losses. Out of 30 PCBs, only five have CAR below the 9.0 percent level. FCBs have CAR much higher than required standard. Table 4 show that the aggregate capital adequacy ratios of the banking sector show a downward movement during 1997-2001. Thereafter, the trend reversed and in 2002 the ratio rose to 7.5 percent and in 2003 the ratio stood at 8.4 percent, the highest during last 7 years

In the formal sector the table? shows the aggregate amounts of NPLs of all banks from 1997 to June 2003, amounts of provision required to maintained and the amounts actually provided by the banks, during 1997-2003 show the in average required provision rate 53.54%

Table 6.2A: Required Provision and Provision maintained – all banks.

(billion Taka)

Bank Types	1997	1998	1999	2000	2001	2002	2003
Amount of NCBs	173.3	214.4	238.8	228.5	236.0	238.6	203.2
Required provision	79.0	93.5	100.2	98.4	101.6	106.8	92.5
Provision maintained	46.7	50.0	51.5	58.1	61.4	59.6	37.3
Excess (+)							
Shortfall (-)	-32.3	-43.5	-48.7	-40.3	-40.2	-47.2	-55.3
Provision maintenance ratio	59.1%	0.5%	0.5%	59.1%	60.5%	55.8%	40.3%

Management:

Bangladesh Bank annual report shows in the formal Sector It indicate from that expenditure-income (E1) ratio of the DFIs was very high 180.4 percent in 1998 and 175.3 percent in the year 2000. This was mainly because the DFI made loan loss provisions by debiting loss in their books. The position however improved after 2000 nd the ratio came down to 89.1 percent and 95.9 percent in 2001 and 2002 respectively but again rose to 101.1 percent in 2003. The E1 ratio of the NCBs execded 100 percent in 1999 bebore balling to nearly 99 percent by end 2003. Very high E1 ratio of NCBs was mainly attributable to high administrative and overhead expenses, suspension of income against NPLs their continuing operating losses and making provision out of the profits made (if any). In the formal Sector It indicate from that expenditure-income (E1) ratio of the all type of Banks from 1998 to 2003 is 95.05 percent. The ratio was very high as the banks mainly attributable to high administrative and overhead expenses, suspension of income against NPLs their continuing operating losses and making provision out of the profits made.

Table 6.3A: Expenditure-income ratio by type of banks (%)

Bank Types	1998	1999	2000	2001	2002	2003
NCBs	99.8	100.5	99.4	99.0	98.5	98.8
DFIs	180.4	145.2	175.3	89.1	95.9	101.1
PCBs	85.3	90.4	90.8	88.1	91.9	93.1
FCBs	60.1	67.4	77.7	75.1	78.3	80.3
Total	**95.4**	**96.6**	**99.9**	**91.2**	**93.3**	**93.9**

Earnings:

Analysis of these indicators reveal that the ROA of the NCBs have been very low and that of the DFIs even worse. PCBs had an inconsistently declined from 4.8 percent in 1997 to 2.6 percent in 2003.

Table 6.4A Profitability ratios by type of banks.

(percent)

Bank Types	Liquid Assets							Excess Liquidity						
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
NCBs	0.0	0.0	0.0	0.1	0.1	0.1	0.1	1.3	0.3	-1.1	1.7	2.4	4.2	3.0
DFIs	-2.1	-2.8	-1.6	-3.7	0.7	0.3	0.0	-29.1	-36.3	-29.4	-68.0	12.3	5.8	-0.6
PCBs	1.1	1.2	0.8	0.8	1.1	0.8	0.7	24.4	26.8	15.3	17.0	20.9	13.6	11.4
FCBs	4.8	4.7	3.5	2.7	2.8	2.4	2.6	38.2	40.7	41.8	27.3	32.4	21.5	20.4
Total	0.3	0.3	0.2	0.0	0.7	0.5	0.5	7.0	6.6	5.2	0.3	15.9	11.6	9.8

Liquidity:

Bangladesh Banks annual report for 2003 - 2004 shows that the FCBs have the highest liquidity ratios followed by the PCBs. This continuing surplus liquidity seem to suggest scope for reducing lending rate and help raise the growth of credit to private sector.

Table 6.5A Liquidity ratio by type of banks.

Percent

Bank Types	Liquid Assets							Excess Liquidity						
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
NCBs	22.7	24.4	25.2	26.5	25.7	27.3	24.4	2.7	4.4	5.2	6.5	5.7	7.3	8.4
DFIs	16.9	16.6	15.7	16.2	15.3	13.7	12.0	9.7	9.2	8.7	9.9	8.9	6.9	5.8
PCBs	24.2	24.8	25.9	24.8	24.2	26.3	24.4	6.0	6.7	8.0	6.8	6.2	8.5	9.8
FCBs	31.2	39.8	51.3	34.7	34.1	41.6	37.8	11.2	19.9	31.4	14.8	14.3	21.8	21.9
Total	23.3	25.2	27.0	26.1	25.3	27.2	24.7	4.5	6.4	8.3	7.5	6.7	8.7	9.9

ANNEX - IX

Supporting Indicators for Management & Earnings

1. ***(Adjusted Net Income, Microfinance Activity/Unadjusted Net Income, Microfinance Activity)*100***

This indicator allows the analyst to compare the effects of the CAMEL adjustments on the reported profitability of the institution. It quantifies the magnitude of the adjustments, with a lower percentage indicating a bigger gap between the adjusted results and the non-adjusted results.

2. ***Financial Self-Sufficiency: Adjusted Net Operating Margin, Microfinance Activities/Total Adjusted Operating Expense, Microfinance Activities***

When the institution is not generating a positive return on assets (ROA) or return on equity (ROE) after adjustments, this indicator quantifies the extent to which there is a shortfall. For example, an institution with a negative ROA or ROE might have a financial self-sufficiency indicator of 95 percent, indicating that it is very close to covering all costs associated with the microfinance operation, including the CAMEL adjustments.

3. ***Adjusted Financial Margin: Adjusted Net Operating Margin/Average Loan Portfolio***

This indicator quantifies the margin available to the institution to cover operating expenses. If the institution is operating with little competition in the microfinance sector, this ratio tends to be very high.

4. ***Total Loan Officer Salaries / Average Loan Portfolio; Total Operating Expenses, Agencies / Average Loan Portfolio; Total Operating Expense, Head Office / Average Loan Portfolio;*** **and** ***Number of Field Personnel/Number of Administrative Personnel***

These indicators begin to identify where operating inefficiencies might lie within the MFI. A ratio of adjusted operating expenses to average loan portfolio of 20 percent is a strong one for MFIs. In the more efficient MFIs

within the PKSF POs, this ratio usually breaks down differently depending on the size of loan officer salaries, total agency operating expenses, or total head office operating expenses (Table D-1).

Table IX: Ranges for Ratios of Various Operating Expenses to Average Portfolio

Indicator	Percent
Total loan officer salaries/Average portfolio	8
Total operating expenses, Head Office/Average portfolio	6

These ranges are based on the assumption that an optimal balance between the number of field personnel and the number of personnel in an administrative capacity is 2:1. For the purposes of this indicator, the numerator (field personnel) includes loan officers, collection agents, marketing officers, and agency/branch heads (if they report to operations rather than administration). As defined here, administrative personnel are the difference between total personnel and field officers. If the analyst determines that the range for head office or agency expenses in relation to average loan portfolio is too high, the reason is either high salaries for administrative personnel, inefficient processes that inflate operating expenses beyond target levels, or both. On the other hand, if the ratio of loan officer salaries to average portfolio is out of line, too high for example, then any of three factors, or a combination thereof, could have given rise to this situation: (1) low physical productivity of the average loan officer, (2) high loan officer salary, and (3) low outstanding loan balance per client. The next four indicators assist the analyst in better understanding these factors

5. *Number of Active Borrowers at End of Period/Number of Loan Advisors at End of Period*

This indicator measures the physical productivity of the loan officer. The number of borrowers serviced by each loan officer will vary according to the density of microfinance clients in the region and the lending methodology employed by the institution. For institutions using the solidarity group lending methodology, a ratio of 85 groups, or 340 borrowers assuming four borrowers per group, would be an appropriate target. For institutions using the individual lending methodology, an appropriate target would be 250 clients.

6. ***Personnel Retention Rate: Administrative Personnel at End of period/Administrative Personnel at Beginning of Period (12 Months Prior to End of Period) Plus New Administrative Personnel Hired between Beginning and End Period; and Field Personnel at End of Period/Field Personnel at Beginning of Period (12 Months Prior to End of Period) Plus New Field Personnel Hired between Beginning and End Period.***

A high ratio indicates that the institution is successful in retaining personnel, which is an indirect way of measuring whether compensation is adequate. Low compensation would tend to result in high rotation, unless there is significant unemployment in that country.

7. ***Total Amount of Credit Disbursed during the Period/Number of Credit Operations = Average Loan Disbursed; Average Loan Disbursed/Minimum Monthly Wage***

A comparison of the average loan disbursed to the minimum monthly wage in Bangladesh allows the analyst to measure whether the microfinance market is being serviced or if the institution has moved above or below this market. If the indicator is below five times, then the low average loan size might be the reason for the low financial productivity of the loan officer.